

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551



**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 

(do not check if a smaller reporting company)

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2016 was approximately \$15.3 billion, which includes non-voting common units with a value of approximately \$1.4 billion.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 17, 2017 was 587,607,442. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 17, 2017 was 54,470,009.

DOCUMENTS INCORPORATED BY REFERENCE

None

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## **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “indicator,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (“SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

## **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([www.instagram.com/blackstone](http://www.instagram.com/blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the “Contact Us/Email Alerts” section of our website at <http://ir.blackstone.com>. The contents of our website, any alerts and social media channels are not, however, a part of this report.

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In this report, references to “Blackstone,” the “Partnership,” “we,” “us” or “our” refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

“Blackstone Funds,” “our funds” and “our investment funds” refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”), real estate investment trusts and registered investment companies that are managed by Blackstone. “Our carry funds” refers to the private equity funds, real estate funds and certain of the hedge fund solutions and credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. We refer to our general corporate private equity funds as Blackstone Capital Partners (“BCP”) funds, our energy-focused private equity funds as Blackstone Energy Partners (“BEP”) funds, our core private equity fund as Blackstone Core Equity Partners (“BCEP”), our opportunistic investment platform that invests globally across asset classes, industries and geographies as Blackstone Tactical Opportunities (“Tactical Opportunities”), our secondary private equity fund of funds business as Strategic Partners Fund Solutions (“Strategic Partners”), a multi-asset investment program for eligible high net worth investors offering exposure to certain of our key illiquid investment strategies through a single commitment as Blackstone Total Alternatives Solution (“BTAS”) and our capital markets services business as Blackstone Capital Markets (“BXCMT”). We refer to our real estate opportunistic funds as Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as Blackstone Real Estate Debt Strategies (“BREDS”) funds. We refer to our core+ real estate funds, which target substantially stabilized assets in prime markets, as Blackstone Property Partners (“BPP”) funds. We refer to our real

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estate investment trusts as “REITs” and to Blackstone Mortgage Trust, Inc., our NYSE-listed REIT as “BXMT”. “Our hedge funds” refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone.

“Assets Under Management” refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, plus for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of our funds of hedge funds, hedge funds, real estate debt carry funds (plus the capital that we are entitled to call from investors in those funds), open ended core+ real estate fund, our Hedge Fund Solutions registered investment companies, and our non-exchange traded REIT,
- (c) the invested capital, fair value or net asset value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs after the reinvestment period,
- (f) the gross or net amount of assets (including leverage where applicable) for our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds, hedge funds and funds structured like hedge funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days’ notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments may generally be terminated by an investor on 30 to 90 days’ notice.

“Fee-Earning Assets Under Management” refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, co-investments managed by us on which we receive fees, certain registered investment companies, and our non-exchanged traded REIT,
- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,

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- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, and
- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments may include certain Fee-Earning Assets Under Management on which we earn performance fees but not management fees.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

## PART I.

### ITEM 1. BUSINESS

#### *Overview*

Blackstone is a leading global alternative asset manager, with Total Assets Under Management of \$366.6 billion as of December 31, 2016. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary private equity funds of funds and multi-asset class strategies. We also provide capital markets services.

All of Blackstone's businesses use a solutions oriented approach to drive better performance. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are public and corporate pension funds. As a result, to the extent our funds perform well, it supports a better retirement for millions of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have positive impacts on local economies.

As of December 31, 2016, we had 123 senior managing directors and approximately 2,120 other employees at our headquarters in New York and in 29 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

#### *2016 Highlights*

##### *Sustained Healthy Realization Activity Driving Distributions*

- Continued strong realization activity across business segments despite a volatile market backdrop, with total realizations of \$39 billion in 2016, and averaging \$42 billion per year over the last three years.
- Blackstone has distributed over \$8 billion in value, including the value of the spin-off of our financial advisory business, to common and Holdings unitholders over the past three years, one of the highest returns of capital to equity holders in our industry.

##### *Platform Expansion Enabling Large Scale Capital Deployment*

- Global scale and business diversification allow Blackstone to identify attractive investment opportunities around the world, despite more challenging market conditions in certain areas. As a result, the past three years have marked the three largest for capital deployment in our history, with \$23 billion deployed in 2016 and a cumulative \$82 billion deployed over the past three years.
- We are generating significant deal flow from new strategies. Three of our largest new initiatives in the past five years — Tactical Opportunities, core+ real estate and Strategic Partners — invested an aggregate \$7 billion in 2016, or 30% of total capital deployed. In addition, our new core private equity initiative signed its first investment in January 2017.

***Another Year of Double-Digit Growth in Fee-Earning Assets Under Management***

- Each of our investing businesses saw positive growth in both Assets Under Management and Fee-Earning Assets Under Management in 2016, despite significant levels of realizations, given continued strong fundraising across businesses. Fee-Earning Assets Under Management rose 13% in 2016 to \$277 billion and Assets Under Management rose 9% to \$367 billion, both of which were firm records.
- Gross organic capital inflows across our businesses reached \$70 billion for 2016, our second best year on record. Our limited partners continue to give us large scale capital for our new initiatives, including Tactical Opportunities, which in five years has reached \$17 billion in Assets Under Management, core+ real estate, which in three years has reached \$14 billion in Assets Under Management and Strategic Partners, which now has over \$20 billion in Assets Under Management, more than double the size of the platform when we acquired it three years ago.
- Continued to diversify our sources of capital, including bringing our institutional quality solutions to the retail high net worth area and family office channels, with a meaningful amount of capital inflows coming from the retail channel.
- Maintained focus on developing innovative investment structures and capital raising opportunities, sponsoring (together with Axis Capital) the creation of Harrington Re Ltd., a Bermuda-based multi-line reinsurance company, which will invest a significant portion of its capital across a multi-asset alternative strategy managed by Blackstone.

***Industry-Leading Credit Rating and Strong Balance Sheet***

- Strong balance sheet with no net debt, \$4.6 billion in total cash, cash equivalents and corporate treasury investments, and a \$1.5 billion undrawn revolver.
- S&P and Fitch have both affirmed Blackstone's A+ / A+ credit ratings, making Blackstone the highest rated alternative asset manager and one of the highest rated global financial services firms.
- Successfully executed our second euro bond sale in a highly oversubscribed offering of €600 million of 1.0% notes due 2026, which was priced within a few basis points of the benchmark rate's all-time low.

***Positively Impacting Communities***

- The Blackstone Charitable Foundation continued its work with local partners in targeted regions to create or grow non-profit programs that support networks and resources for entrepreneurs. In 2016, the Foundation expanded Blackstone LaunchPad to three universities in Texas. In January 2017, working with the city of Chicago and World Business Chicago, it launched the Blackstone Inclusive Entrepreneurship Challenge, a three-year pilot program that will award up to \$3.4 million in grants to create a cohort of innovative organizations that effectively recruit and support diverse entrepreneurs and scale start-ups in the Chicago area.
- In April 2013, Blackstone committed to hire 50,000 American veterans across its portfolio over five years in support of the White House's "Joining Forces" initiative, and has successfully hired 45,000 to date. For the past four years, Blackstone has hosted a Blackstone Veterans Hiring Summit designed to help hiring executives within corporations share best practices on attracting and recruiting veterans and to assist representatives from the U.S. military and government as they work in coordination with Blackstone portfolio companies

**Business Segments**

Our four business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions and (d) Credit.

Information about our business segments should be read together with "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and related notes included elsewhere in this Form 10-K.

### ***Private Equity***

Our Private Equity segment, established in 1987, is a global business with approximately 250 employees managing \$100.2 billion of Total Assets Under Management as of December 31, 2016. We are a world leader in private equity investing, having managed seven general private equity funds, as well as three sector-focused funds since we established the business. We are focused on identifying, managing and creating lasting value for our investors. Our Private Equity segment includes our corporate private equity business, which consists of our flagship corporate private equity funds, Blackstone Capital Partners (“BCP”) funds, our sector-focused corporate private equity funds, including our energy-focused funds, Blackstone Energy Partners (“BEP”) funds and our core private equity fund, which targets control-oriented investments in high-quality companies with durable businesses and seeks to offer a lower level of risk and a longer hold period than traditional private equity. In addition, our Private Equity segment includes our opportunistic investment platform that invests globally across asset classes, industries and geographies, Blackstone Tactical Opportunities (“Tactical Opportunities”), our secondary private equity fund of funds business, Strategic Partners Fund Solutions (“Strategic Partners”), a multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone’s key illiquid investment strategies through a single commitment, Blackstone Total Alternatives Solutions (“BTAS”) and our capital markets services business, Blackstone Capital Markets (“BXCM”).

Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in operating companies and greenfield development projects in energy and power). Our private equity business’s investment strategies and core themes continually evolve, in anticipation of, or in response to, changes in the global economy, local markets, regulation, capital flows and geopolitical trends. We seek to construct a differentiated portfolio of investments with a well-defined, interventionist, post-acquisition value creation strategy. Similarly, we seek investments that can generate strong unlevered returns regardless of entry or exit cycle timing. Finally, when we can identify sectors or geographies in which the demand for capital greatly exceeds the readily available supply, our private equity business seeks to make investments at or near book value where it can create goodwill or franchise value through post-acquisition actions.

Tactical Opportunities, our opportunistic investment platform, invests globally across asset classes, industries and geographies. Tactical Opportunities’ mandate allows for flexible investing where it seeks to capitalize on time-sensitive, complex or dislocated market situations in areas where it sees mispriced risks. The Tactical Opportunities team leverages intellectual capital from across all of our businesses to inform our investment diligence and execution. A flexible investment mandate allows Tactical Opportunities to structure a broad range of investments, including private and public securities and instruments, where the underlying exposure may be to equity, debt and/or real assets, and to construct a diversified portfolio of investments that provides differentiated exposures relative to traditional alternative asset managers.

Strategic Partners, our secondary private equity fund of funds business was established in 2000 and acquired by Blackstone in 2013. Strategic Partners is focused on investing in a range of opportunities, leveraging its proprietary database to execute transactions ranging from single fund interests to complex, structured portfolio solutions, in an efficient and timely manner.

For more information concerning the revenues and fees we derive from our Private Equity segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

### ***Real Estate***

Our Real Estate group was founded in 1991 and is one of the largest real estate investment managers in the world, with \$102.0 billion of Total Assets Under Management as of December 31, 2016. We operate as one globally integrated business with 285 employees and investments in North America, Europe, Asia and Latin America.



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Our Blackstone Real Estate Partners (“BREP”) funds are geographically diversified and target a broad range of “opportunistic” real estate and real estate related investments. The BREP funds include global funds as well as funds focused specifically on Europe or Asia investments. We seek to acquire high quality, well-located yet undermanaged assets at an attractive basis, address any property or business issues through active asset management and sell the assets once our business plan is accomplished. BREP has made significant investments in hotels, office buildings, shopping centers, residential and industrial assets, as well as a variety of real estate operating companies.

We launched Blackstone Real Estate Debt Strategies (“BREDS”), our real estate debt platform, in 2008. Our BREDS vehicles target debt investment opportunities collateralized by commercial real estate. BREDS invests in both public and private markets, primarily in the U.S. and Europe. BREDS’ scale and investment mandates enable it to provide a variety of lending options for our borrowers and investment options for our investors, including mezzanine loans, senior loans and liquid securities. The BREDS platform includes a number of high yield and high grade real estate debt funds, liquid real estate debt funds and Blackstone Mortgage Trust, Inc. (“BXMT”), a NYSE-listed REIT.

We launched our core+ real estate business (“BPP”) in 2013 and we have assembled a global portfolio of high quality core+ investments across the U.S., Europe and Asia. Our BPP vehicles target substantially stabilized assets in prime markets with a focus on office, multifamily, industrial and retail assets. The funds generate returns through both current income and value appreciation over the long term. We manage several core+ real estate funds and a non-exchange traded REIT.

For more information concerning the revenues and fees we derive from our Real Estate segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

### ***Hedge Fund Solutions***

Our Hedge Fund Solutions group is comprised primarily of Blackstone Alternative Asset Management (“BAAM”). BAAM is the world’s largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solution segment also includes investment platforms that seed new hedge fund businesses, purchase minority ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade directly. Working with our clients over the past 20 plus years, our Hedge Fund Solutions group has developed into a leading manager of institutional hedge fund of funds with approximately 160 employees managing \$71.1 billion of Total Assets Under Management as of December 31, 2016. Hedge Fund Solutions’ overall investment philosophy is to protect and grow investors’ assets through both commingled and custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

### ***Credit***

Our credit business consists principally of GSO Capital Partners LP (“GSO”) which was founded in 2005 and subsequently acquired by Blackstone in 2008. GSO, with \$93.3 billion of Total Assets Under Management as of December 31, 2016 and approximately 180 employees, is one of the largest leveraged finance-focused alternative asset managers in the world and is the largest manager of CLOs globally. The investment portfolios of the funds we manage or sub-advise predominantly consist of loans and securities of non-investment grade companies spread across the capital structure including senior debt, subordinated debt, preferred stock and common equity.

The GSO business is organized into three overarching strategies: performing credit, distressed and long only. Our performing credit strategies include mezzanine lending funds, business development companies (“BDCs”) that we sub-advise and other performing credit strategy funds. Our distressed strategies include hedge fund strategies, rescue lending funds and distressed energy strategies. GSO’s long only strategies consist of CLOs, closed end funds, commingled funds and separately managed accounts.

## **Financial and Other Information by Segment**

Financial and other information by segment for the years ended December 31, 2016, 2015 and 2014 is set forth in Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data” of this filing.

### **Pátria Investments**

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”). Pátria is a leading Brazilian alternative asset manager that was founded in 1988. As of December 31, 2016, Pátria’s alternative asset management businesses had \$9.4 billion in assets under management, including the management of private equity funds (\$4.4 billion), real estate funds (\$1.3 billion), infrastructure funds (\$3.6 billion) and new initiatives (\$225.4 million). Pátria has approximately 245 employees and is led by a group of three managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria’s board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

### **Investment Process and Risk Management**

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest, as well as limitations required by law. Our business’ investment committees review and evaluate investment opportunities in a framework that includes a qualitative and quantitative assessment of the key risks of each investment.

#### **Private Equity Funds**

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) submits a proposed transaction for review by the review committee of our private equity funds. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. Following assimilation of the review committee’s input and its decision to proceed, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James, Joseph Baratta, Global Head of Private Equity, and selected senior managing directors of our Private Equity segment, including individuals based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Considerations that the investment committee takes into account when evaluating an investment include the quality of a business in which the fund proposes to invest and the quality of the management team of such business, expected levered and unlevered returns of the investment in a variety of investment scenarios, the ability of the company in which the investment is made to service debt in a range of economic and interest rate environments, environmental, social and governance, or ESG, issues and macroeconomic trends in the relevant geographic region.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for assisting in enhancing portfolio companies’ operations and value, all professionals in our private equity business meet several times each year to review the performance of the funds’ portfolio companies.

Our Tactical Opportunities business has a substantially similar process to the Private Equity process described above, with the exception of the composition of the review and investment committee. The Tactical Opportunities

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review committee is comprised of the senior managing directors and managing directors of the Tactical Opportunities business and a senior managing director of our Private Equity business, and the investment committee is comprised of Mr. Schwarzman, Mr. James, the business heads of Blackstone's Private Equity, Real Estate and Credit businesses, and certain other senior managing directors.

Our Strategic Partners business seeks capital appreciation through the purchase of secondary interests in mature, high-quality private equity funds from investors seeking liquidity. After rigorous, highly analytical investment due diligence, the Strategic Partners investment professionals present a proposed transaction to the group's investment committee. The Strategic Partners investment committee is made up of senior members of the Strategic Partners team, including all of the group's Senior Managing Directors. The investment committee meets to review, and decide whether to approve or deny, transactions. The investment professionals on the Strategic Partners team are responsible for monitoring each investment once it is made. In addition to members of the investment team, and given the large number of underlying investments, the Strategic Partners Finance team will also track investment valuations pursuant to the group's valuation policies and procedures.

#### **Real Estate Funds**

Our Real Estate investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing, monitoring and exiting investments, as well as pursuing operational improvements and value creation. Our real estate operation has an investment committee similar to that described under "— Private Equity Funds." After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly meeting of the investment committee. The real estate investment committee, which includes Mr. Schwarzman, Mr. James, Jonathan D. Gray, Global Head of Real Estate, and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of the transaction and approves the investments. Considerations that the investment committee takes into account when evaluating an investment include current and anticipated market fundamentals (including, for example, supply and demand fundamentals) and macroeconomic trends in the relevant geographic region, the quality of the asset in which the fund proposes to invest, the appropriateness of existing or planned leverage levels of the business or asset and our ability to successfully implement operational plans and improvements and exit the investment at an expected rate of return. Deal team members and our asset management group are responsible for monitoring and enhancing investments' operations and value.

#### **Hedge Fund Solutions**

Before deciding to invest in a new hedge fund or with a new hedge fund manager, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site "front office" review of the fund's/manager's performance, investment terms, investment strategy and investment personnel, a "back office" review of the fund's/manager's operations, processes, risk management and internal controls, industry reference checks and a legal review of the investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the relevant Hedge Fund Solutions investment committee. The investment committees are comprised of relevant senior managing directors and senior investment personnel. Existing investments are reviewed and monitored on a regular and continuous basis, and J. Tomilson Hill, CEO of the Hedge Fund Solutions group and Vice Chairman of Blackstone, and other senior members of our Hedge Fund Solutions team meet regularly with Mr. Schwarzman and Mr. James to review the group's business and affairs

#### **Credit**

Each of our credit-focused funds has an investment committee similar to that described under "— Private Equity Funds." The investment committees for the credit-focused funds, which typically include Bennett J. Goodman and J. Albert Smith III and senior members of the respective investment teams associated with each

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credit-focused fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions, subject to delineated exceptions set forth in the funds' investment charters. In addition, senior members of GSO, including Mr. Goodman and Mr. Smith III, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for the customized credit long only clients and other clients whose portfolios are actively traded are made by separate investment committees, each of which is composed of certain of the group's respective senior managing directors, managing directors and other investment professionals. With limited exceptions where the portfolio managers wish to capitalize on time sensitive market opportunities, the investment committee approves all assets that are held by the applicable client. The investment team is staffed by professionals within research, portfolio management, trading and capital formation to ensure active management of the portfolios. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation as well as the risks associated with the overall portfolio composition. Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### **Structure and Operation of Our Investment Vehicles**

Our private investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make. We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and, to a more limited extent, high net worth individuals. Such commitments are generally drawn down from investors on an as-needed basis to fund investments over a specified term. With the exception of certain core+ real estate and real estate debt funds, our private equity and private real estate funds are commitment structured funds. For certain core+ real estate and real estate debt funds, all or a portion of the committed capital is funded on or promptly after the investor's subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our Real Estate business also includes a NYSE-listed REIT, BXMT, a non-exchange traded REIT, and a registered open-ended investment company complex, each of which is externally managed or advised by Blackstone-owned entities. Our credit-focused funds are generally commitment structured funds or open-ended where the investor's capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Ten credit-focused vehicles that we manage or sub-advise in whole or in part are registered investment companies (including BDCs). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds as well as our hedge funds are structured as funds where the investor's capital is fully funded into the fund upon the subscription for interests in the fund.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or "Advisers Act." Substantially all of the day-to-day operations of each investment vehicle are typically carried out by the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from funds or fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or "1940 Act," in reliance on the

statutory exemptions provided by Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are “qualified purchasers” as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the SEC, Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers. BXMT is externally managed by a Blackstone-owned entity pursuant to a management agreement, conducts its operations in a manner that allows it to maintain its REIT qualification and also avail itself of the statutory exemption provided by Section 3(c)(5)(C) of the 1940 Act for companies engaged primarily in investment in mortgages and other liens or investments in real estate. Our non-exchange traded REIT is externally advised by a Blackstone-owned entity pursuant to an advisory agreement, conducts its operations in a manner that allows it to maintain its REIT qualification and also avails itself of the statutory exemption provided by Section 3(c)(5)(C) of the 1940 Act.

In some cases, one or more of our investment advisers, including within GSO, BAAM and BREDS advisers, advises or sub-advises funds registered under the 1940 Act. In addition to having an investment adviser, each investment fund that is a limited partnership, or “partnership” fund, also has a general partner that generally makes all operational and investment decisions, including the making, monitoring and disposing of investments. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. With the exception of certain of our funds of hedge funds, hedge funds, certain credit-focused funds, and other funds or separately managed accounts for the benefit of one or more specified investors, third party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain “key persons” in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund’s investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any reason, the investment period by a vote of 75% of the investors in such fund.

## **Incentive Arrangements / Fee Structure**

### ***Management Fees***

The following describes the management fees received by the Blackstone investment advisers.

- The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund’s capital commitments, invested capital and/or undeployed capital during the investment period and the fund’s invested capital or investment fair value after the investment period, except that the investment advisers to certain of our credit-focused carry/incentive funds and core+ real estate funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. These management fees are payable on a regular basis (typically quarterly) in the contractually prescribed amounts over the life of the fund. Depending on the base upon which management fees are calculated, negative performance of one or more investments in the fund may reduce the total management fee paid, but not the fee rate.
- The investment adviser of each of our funds that are structured like hedge funds, or of our funds of hedge funds, registered mutual funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of the fund’s or account’s net asset

value. These management fees are also payable on a regular basis (typically quarterly). These funds often afford investors increased liquidity through annual, semi-annual or quarterly, or in the case of registered mutual funds, daily, withdrawal or redemption rights, in some cases following the expiration of a specified period of time when capital may not be withdrawn. The amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor's capital account grows and will proportionately decrease as the net asset value of each investor's capital account decreases.

- The investment adviser of each of our CLOs typically receives annual management fees based upon a percentage of each fund's assets, subject to certain performance measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). These management fees are also payable on a regular basis (typically quarterly). The term of each CLO varies from deal to deal and may be subject to early redemption or extension; typically, however, a CLO will be wound down within eight to eleven years of being launched. While the management fees tend to be approximately 0.5% per annum of each fund's aggregate par amount of collateral assets, including principal cash, for the term of the deal, the quantum of fees will decrease as the fund deleverages toward the end of its term.
- The investment adviser of our separately managed accounts generally receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. The management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice.
- The investment adviser of each of our credit-focused registered and non-registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. The management fees we receive from the registered investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the BDCs we sub-advise, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice.
- The investment adviser of BXMT receives annual management fees based upon a percentage of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its net income, calculated under accounting principles generally accepted in the United States of America ("GAAP"), excluding certain non-cash and other items), subject to certain adjustments. The management fees we receive from managing BXMT are paid quarterly and increase or decrease based on, among other things, BXMT's net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments).
- The investment adviser of our non-exchange traded REIT receives a management fee based on a percentage of the REIT's net asset value, payable monthly.

For additional information regarding the management fee rates we receive, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition — Management and Advisory Fees, Net."

### ***Incentive Fees***

The general partners or similar entities of each of our hedge fund structures receive performance based allocation fees ("incentive fees") of generally up to 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry forward (known as a "high water mark") and/or other hurdle provisions. In some

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cases, the investment adviser of each of our funds of hedge funds, separately managed accounts that invest in hedge funds and certain non-U.S. registered investment companies, is entitled to an incentive fee of generally up to 15% of the applicable investment vehicle's net appreciation, subject to a high water mark and in some cases a preferred return. In addition, for the BDCs we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum (in certain cases paid quarterly), subject to a preferred return. The external manager of BXMT is entitled to an incentive fee, payable quarterly, in an amount, not less than zero, equal to the product of (a) 20% and (b) the excess of (i) BXMT's core earnings for the previous 12-month period over (ii) an amount equal to 7% per annum multiplied by BXMT's average outstanding equity (as defined in the management agreement), provided that BXMT's core earnings over the prior three-year period are greater than zero. The special limited partner, an affiliate of our non-exchange traded REIT, is entitled to a performance participation interest, which is paid annually and accrues monthly, in an amount equal to 12.5% of its total return, subject to a 5% hurdle amount and a high water mark with a catch-up. In addition, the general partner of certain core+ real estate funds is entitled to an incentive fee allocation of up to 10% of excess profits, subject to a 7% hurdle amount and a loss recovery amount with a catch-up. Incentive Fees are realized at the end of a measurement period, typically annually for hedge funds and every three years from when a limited partner makes its initial investment for a certain core+ real estate fund. Once realized, such fees are not subject to clawback.

### ***Carried Interest***

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a "realized gain" basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account realized and unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused funds, real estate debt funds, core+ real estate funds, Tactical Opportunities funds, multi-asset class investment funds and secondary funds of funds, and our core private equity fund, are generally entitled to a carried interest that ranges between 10% and 20%, depending on the specific fund (subject to variation across our business units and funds). Net realized income or loss is not netted between or among funds, and in some cases our carry funds provide for carried interest on current income distributions (subject to certain conditions).

For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 5% to 8%, subject to a catch-up allocation to the general partner. Some of our carry funds (e.g., our Tactical Opportunities funds generally) do not provide for a preferred return, and generally the terms of our carry funds vary in certain respects across our business units and vintages. If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate, real estate debt, core+ real estate and multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in a carry fund's life, (a) the general partner receives in excess of the relevant carried interest percentage(s) applicable to the fund as applied to the fund's cumulative net profits over the life of the fund, or (in certain cases) (b) the carry fund has not achieved investment returns that exceed the preferred return threshold (if applicable), then we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which the relevant general partner was ultimately entitled on an after tax basis. This obligation is known as a "clawback" obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount

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of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund's own net investment performance only and carried interest of other funds is not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share of the clawback obligation then due, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2016, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see "Item 1A. Risk Factors — We may not have sufficient cash to pay back 'clawback' obligations if and when they are triggered under the governing agreements with our investors."

***Advisory and Transaction Fees***

Some of our investment advisers, particularly real estate and credit advisers, receive customary fees (for example, acquisition, origination and other transaction fees) upon consummation of their funds' transactions, and may from time to time receive advisory, monitoring and other fees in connection with their activities. The transaction fees that they receive are generally calculated as a percentage (that generally can range up to 3%) of the total value of the acquired asset or the par value of the originated loan, as applicable. For most of the funds where we receive such fees, we are required to reduce the management fees charged to the funds' limited partners by 50% to 100% of such limited partner's share of such fees.

**Capital Invested In and Alongside Our Investment Funds**

To further align our interests with those of investors in our investment funds, we have invested the firm's capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity Needs" for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on, among other things, our anticipated liquidity, working capital and other capital needs. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional "co-investments" with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as "side-by-side investments," with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.



## **Competition**

The asset management industry is intensely competitive, and we expect it to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. Although many institutional and individual investors have increased the amount of capital they commit to alternative investment funds, such increases may create increased competition with respect to fees charged by our funds. Certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment.

In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see “Item 1A. Risk Factors — Risks Related to Our Business — The asset management business is intensely competitive.”

## **Employees**

As of December 31, 2016, we employed approximately 2,240 people, including our 123 senior managing directors. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

## **Regulatory and Compliance Matters**

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients, and general anti-fraud prohibitions.

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Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our capital markets services business and certain of our fund marketing and distribution, is registered as a broker-dealer with the SEC and is subject to regulation and oversight by the SEC, is a member of the Financial Industry Regulatory Authority, or “FINRA,” and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entity. State securities regulators also have regulatory or oversight authority over our broker-dealer entity.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including, among others, the implementation of a supervisory control system over the securities business, advertising and sales practices, conduct of and compensation in connection with public securities offerings, maintenance of adequate net capital, record keeping and the conduct and qualifications of employees. In particular, as a registered broker-dealer and member of FINRA, Blackstone Advisory Partners L.P. is subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the capital structure of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC’s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

In addition, certain of the closed-end and open-end mutual funds and investment management companies we manage, advise or sub-advise are registered under the 1940 Act. The 1940 Act and the rules thereunder govern, among other things, the relationship between us and such investment vehicles and limit such investment vehicles’ ability to enter into certain transactions with us or our affiliates, including other funds managed, advised or sub-advised by us.

Pursuant to the U.K. Financial Services and Markets Act 2000, or “FSMA,” certain of our subsidiaries are subject to regulations promulgated and administered by the Financial Conduct Authority (“FCA”). The Blackstone Group International Partners LLP and GSO Capital Partners International LLP are both authorized and regulated by the FCA in the United Kingdom. The FSMA and rules promulgated thereunder form the cornerstone of legislation which governs all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. Blackstone Property Management Limited is authorized and regulated by the FCA in the United Kingdom as a property management and advisory company with the ability to administer contracts of insurance.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland as an Investment Firm under the European Communities (Markets in Financial Instruments) Regulations 2007. Blackstone/GSO Debt Funds Management Europe II Limited is authorized by the Central Bank of Ireland as an Alternative Investment Fund Manager under the European Union Alternative Investment Fund Managers Regulations 2013. The Blackstone Group Denmark ApS is regulated as an investment adviser by the Danish Financial Supervisory Authority. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore: The Blackstone Group Japan K.K., a financial instruments firm, is registered with Kanto Local Finance Bureau (Kin-sho) and regulated by the Japan Financial Services Agency; The Blackstone Group (HK) Limited is regulated by the Hong Kong Securities and Futures Commission; The Blackstone Group (Australia) Pty Limited ACN 149 142 058 and Blackstone Real Estate Australia Pty Limited ACN 604 167 651 each holds an Australian financial services license authorizing it to provide financial services in Australia (AFSL 408376 and AFSL 485716, respectively) and is regulated by the Australian Securities and Investments Commission; and The Blackstone Singapore Pte. Ltd is regulated by the Monetary Authority of Singapore (Company Registration Number: 201020503E).

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The SEC and various self-regulatory organizations and state securities regulators have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms.

As described above, certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, disclosure and the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is endemic to our culture and risk management. Our Chief Legal Officer and Global Head of Compliance, together with the Chief Compliance Officers of each of our businesses, supervise our compliance personnel, who are responsible for addressing all regulatory and compliance matters that affect our activities. We strive to maintain a culture of compliance through the use of policies and procedures such as codes of conduct, compliance systems, testing and monitoring, communication of compliance guidance and employee education and training. Our compliance policies and procedures address a variety of regulatory and compliance matters such as the handling of material non-public information, personal securities trading, marketing practices, gifts and entertainment, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest, the allocation of investment opportunities, collection of fees and expense allocation.

Our compliance group also monitors the information barriers that we maintain between the public and private sides of Blackstone's businesses. We believe that our various businesses' access to the intellectual knowledge and contacts and relationships that reside throughout our firm benefits all of our businesses. To maximize that access without compromising compliance with our legal and contractual obligations, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). We have an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley compliance and advisory practices. Internal Audit, which reports directly to the audit committee of the board of directors of our general partner, aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well managed and that controls are appropriate and effective.

Our enterprise risk management practices include review and monitoring of our business, investment and other key risks at various levels, including at the fund, business unit and corporate level. Committees comprised of members of management and representatives of various business units and corporate functions consider and evaluate legal, reputational, operational, control and other risks attendant to our business. In addition, senior management regularly reports to the audit committee of the board of directors of our general partner on risk matters, including by providing periodic risk reports, an overview of management's view of key risks to the firm and detailed assessments of selected risks.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see "Item 1A. Risk Factors — Risks Related to Our Business — Regulatory changes in the United States could adversely affect our business" and "Item 1A. Risk

Factors — Risks Related to Our Business — Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.”

#### **Available Information**

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

#### **ITEM 1A. RISK FACTORS**

##### **Risks Related to Our Business**

***Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital, each of which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition.***

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

Turmoil in the global financial markets, such as occurred in 2008-2009, can provoke significant volatility of equity and debt securities prices. This can have a material and rapid impact on our mark-to-market valuations particularly with respect to our public holdings and credit investments. As publicly traded equity securities have in recent years represented a significant proportion of the assets of many of our carry funds, stock market volatility may have a greater impact on our reported results than in the past and declines in the stock market may adversely affect our results, including our revenues and net income. A lack of credit resulting from turmoil in the global financial markets in the future may materially hinder the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impact our operating results. Although base rates are inside of historical averages and financing costs remain low, there is some concern that the monetary policy of central banks, including of the U.S. Federal Reserve, potential tax and regulatory reform, and other market factors may lead to rising interest rates and adversely impact the cost and availability of credit, as well as the value of our investments. In addition, many emerging economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. A strong U.S. dollar, which could be associated with rising interest rates and pro-export policies, could have an adverse impact on economic growth in emerging economies. In addition, 2016 was a year of significant financial market volatility and geopolitical change, including, among other major events, the U.K. vote to leave the European Union (“Brexit”). Although the long-term impact on economic conditions is uncertain, Brexit may have an adverse effect on the rate of economic growth in the U.K. and Europe, which may negatively impact real estate and other asset values in those regions.

Although interest rates have been at historically low levels for the last few years, the U.S. Federal Reserve raised rates in late 2016 and has indicated an intention to continue raising rates in 2017. A period of sharply rising interest rates could create downward pressure on the price of real estate and increase the cost of debt financing for the transactions we pursue, each of which may have an adverse impact on our business.

Many investments made by our funds are highly illiquid, and we may not be able to realize investments in a timely manner. During early 2016, for example, volatile equity and credit markets resulted in reduced opportunities for our funds to exit and realize value from their existing investments. Although volatility has subsided in recent months and opportunities for exit through the equity markets have increased, uncertainty surrounding potential changes to governmental policy may impact these market conditions. Although the equity markets are not the only means by which we exit investments, should we experience another period of challenging equity markets, our funds may experience increased difficulty in realizing value from investments. We are unable to predict whether and to what extent uncertainty surrounding economic and market conditions will be reduced, and even in the absence of uncertainty, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Challenging market and economic conditions have also made it and may in the future make it more difficult and competitive to find suitable investments for the funds to effectively deploy capital. This could adversely affect our performance and ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds' portfolio companies may experience adverse operating performance, decreased revenues, credit rating downgrades, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds' performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently to our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. Estimates or projections of market conditions, commodity prices and supply and demand dynamics are key factors in evaluating potential investment opportunities and valuing the investments made by our funds. These estimates are subject to wide variances based on changes in market conditions, underlying assumptions, commodity prices and technical or investment-related assumptions.

In addition, the performance of the investments made by our credit and private equity funds in the energy and natural resources markets are also subject to a high degree of market risk given, among other matters, the volatility of commodity prices. See “— Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.”

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

A significant contraction in the market for debt financing, such as the contraction that occurred in 2008 and 2009 or other adverse change relating to the terms of debt financing (such as, for example, higher rates, higher equity requirements, and/or more restrictive covenants), particularly in the area of acquisition financings for private equity and real estate transactions, could have a material adverse impact on our business. In addition, the financing of acquisitions or the operations of our funds' portfolio companies with debt could also become less attractive to the extent the deductibility of corporate interest expense is limited. See "— Possible U.S. federal income tax reform, could adversely affect us." If our funds are unable to obtain committed debt financing for potential acquisitions, can only obtain debt financing at an increased interest rate or on unfavorable terms or the ability to deduct corporate interest expense is limited, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in our revenues. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets and/or regulatory or tax changes render such financing difficult to obtain, more expensive or otherwise less attractive, this may also negatively impact the financial results of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that market conditions and/or regulatory changes make it difficult or impossible to refinance debt that is maturing in the near-term, some of our funds' portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

***A decline in the pace or size of investment made by our funds may adversely affect our revenues.***

The revenues that we earn are driven in part by the pace at which our funds make investments and the size of those investments, and a decline in the pace or the size of such investments may reduce our revenues. Many factors could cause such a decline in the pace of investment, including high prices, the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities or uncertainty and adverse developments in the U.S. or global economy or financial markets. In addition, an increase in the pace at which our funds exit investments could reduce the fee revenue we earn if such exits are not offset by new commitments and investments.

***Our revenue, earnings, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the valuations of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. In particular, economic and market conditions may lead to volatility in the mark-to-market valuations of investments made by our funds, particularly in respect of our public investments. The valuations of investments made by our funds could also be subject to high volatility as a result of uncertainty regarding governmental policy with respect to, among other things, tax reform, financial services regulation, international trade, immigration, healthcare, labor, infrastructure and energy. Achieving steady growth in net income and cash flow on a quarterly basis may be difficult, which could in turn lead to large adverse movements or general increased volatility in the price of our common units.

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The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be a number of years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their "harvesting" period, our carry funds would make larger distributions than in the fundraising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

With respect to most of our funds of hedge funds, our core+ real estate funds and our credit-focused and real estate debt funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have "high water marks" whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our initial public offering ("IPO") and our prior bond offerings, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation

and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.5 billion revolving credit facility with a final maturity date of August 31, 2021. Our long-term debt totaled \$3.4 billion in borrowings from our prior bond issuances and we had no borrowings outstanding against our \$1.5 billion revolving credit facility as of December 31, 2016. At the end of 2016, we had \$1.8 billion in cash and cash equivalents, \$2.8 billion invested in our corporate treasury investments and \$2.2 billion invested in Blackstone funds and other investments.

If the global economy and conditions in the financing markets worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets, which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

***We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds' carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under "Part III. Certain Relationships and Related Transactions, and Director



Independence — Blackstone Holdings Partnership Agreements”) and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings Partnership Units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings Partnership Units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings Partnership Units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, during his presidential campaign, President Trump expressed support for legislation ending treatment of carried interest as capital gain. If federal, state or local legislation to treat carried interest as ordinary income rather than as capital gain for tax purposes were to be enacted, we and possibly our unitholders would be required to pay a materially higher amount of taxes, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See “— Risks Related to United States Taxation — Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to investment management businesses. Accordingly, we may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners, or other strategic initiatives. In

addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) the diversion of management's attention from our core businesses, (d) assumption of liabilities in any acquired business, (e) the disruption of our ongoing businesses, (f) the increasing demands on or issues related to the combining or integrating operational and management systems and controls, (g) compliance with additional regulatory requirements, and (h) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. These activities have and will continue to impose additional compliance burdens on us and could also subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. See "— We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity." In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses could result in substantial tax liability for us and/or our unitholders.***

On October 1, 2015, we completed the previously announced spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses and combined these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman, to form an independent publicly traded company. We may be responsible for U.S. federal income tax liabilities that relate to the spin-off if certain internal reorganization transactions in connection with the spin-off fail to qualify as tax-free, and our unitholders may also incur U.S. federal income tax liability in such circumstances.

***In past years, the U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar***

*legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.*

Over the past several years, members of the U.S. Congress and the administration of former President Obama have made a number of legislative proposals to change the taxation of carried interest that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or “ISPI,” as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive carried interest would likely have been classified as ISPIs for purposes of this legislation. During his presidential campaign, President Trump expressed support for legislation ending treatment of carried interest as capital gain. Whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted is unclear.

Some of the above legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35% (although Congress is considering proposals to lower that rate, as discussed below). In addition, we could be subject to increased state and local taxes. Furthermore, common unitholders could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has considered legislation which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. Whether or when similar legislation will be enacted is unclear. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to common unitholders would be reduced.

***Possible U.S. federal income tax reform, could adversely affect us.***

Both President Trump and the Republican members of the U.S. House of Representatives have publicly stated that one of their top legislative priorities is significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. Proposals by members of Congress have included, among other things:

- Reducing corporate tax rates (the highest dropping from 35% to 20%) and reducing individual tax rates (the highest dropping from 39.6% to 33%),
- Changing to a destination-based tax system, which would tax goods where they are consumed rather than produced, by providing for certain border adjustments which would effectively exempt exports from, and subject imports to, U.S. tax,
- Changing to a territorial tax system by exempting dividends from foreign subsidiaries from U.S. tax, but subjecting unrepatriated earnings of foreign subsidiaries to U.S. tax, paid over the course of eight years (8.75% on cash and cash equivalents and 3.5% otherwise),
- Allowing deductions for interest expense only against interest income, with nondeductible net interest expense being carried forward indefinitely,
- Permitted current deductions for investment in tangible and intangible property (excluding land),

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- Eliminating certain “special interest” deductions and credits,
- Taxing the active business income of pass-through entities at a maximum rate, such as 25%,
- Repealing the 3.8% net investment income tax and corporate and individual alternative minimum taxes, and
- Extending the carryforward of net operating losses.

While President Trump has expressed his support for a number of these proposals, he has also set forth ideas for tax reform that differ in key ways. In particular, in their June 2016 “A Better Way Forward on Tax Reform” (the “House Blueprint”), Republican members of the U.S. House of Representatives proposed, as part of a comprehensive package of tax reform, changes to the Internal Revenue Code that would, along with a reduction in the corporate tax rate and accelerating expensing of capital expenditures, prohibit the deductibility of net interest expense. Many of our funds, particularly our private equity and real estate funds, rely heavily on the use of leverage. Changes to the Internal Revenue Code that limit the deductibility of interest expense would increase the after-tax cost of debt financing of acquisitions, which could make the use of leverage for new investments less attractive, require us to adjust our funds’ investment strategies, increase competition for investments relative to strategic buyers with a lower cost of capital and adversely affect our funds’ investment returns. In addition, many of our funds’ portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations and to make acquisitions, and limitations on the deductibility of interest could subject such portfolio companies to increased tax liability and adversely affect their profitability.

Both the timing and the details of any such tax reform are unclear. The impact of any potential tax reform on us, our funds’ portfolio companies and our investors is uncertain and could be adverse. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.

***Additional proposed changes in taxation of businesses could adversely affect us.***

Congress, the Organization for Economic Co-operation and Development (“OECD”) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting (“BEPS”) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions, interest deductibility and eligibility for the benefits of double tax treaties. A number of European jurisdictions have enacted taxes on financial transactions, and the European Commission has proposed legislation to harmonize these taxes under the so-called “enhanced cooperation procedure,” which provides for adoption of EU-level legislation applicable to some but not all EU Member States. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our funds’ portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (“IFRS”) instead of under GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International

Accounting Standards Board and are more focused on objectives and principles and less reliant on detailed rules than GAAP. Today, there remain significant and material differences in several key areas between GAAP and IFRS that would affect Blackstone. Additionally, GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. A significant amount of time, internal and external resources and expenses over a multi-year period would likely be required for this conversion.

***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems face ongoing cybersecurity threats and attacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds and fund investors, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where many of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery and business continuity programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures or compromises of their information systems and technology could impair the quality of the funds' operations and could affect our reputation and hence adversely affect our businesses.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business.***

Our business is subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations in the jurisdictions in which we operate around the world. These authorities have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are also empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel.

Moreover, the financial services industry recently has been the subject of heightened scrutiny, and the SEC has specifically focused on private equity. In that connection, the SEC's prior lists of examination priorities have included, among other things, private equity firms' collection of fees and allocation of expenses, their marketing and valuation practices and allocation of investment opportunities. We regularly are subject to requests for information and informal or formal investigations by the SEC and other regulatory authorities, with which we routinely cooperate, and which have included review of historical practices that were previously examined. For example, in October 2015, without admitting or denying any wrongdoing, three of our private equity fund advisors consented to the entry of an order settling certain matters in connection with funds formed many years ago relating to historical monitoring fee termination practices and historical practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were charged in 2011. SEC actions and initiatives can have an adverse effect on our financial results, including as a result of the imposition of a sanction or changing our historic practices. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new clients.

***We rely on complex exemptions from statutes in conducting our asset management activities.***

We regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or "Securities Act," the Exchange Act, the 1940 Act, the Commodity Exchange Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. For example, the "bad actor" disqualification provisions of Rule 506 of Regulation D under the Securities Act ban an issuer from offering or selling securities pursuant to the safe harbor rule in Rule 506 if the issuer or any other "covered person" is the subject of a criminal, regulatory or court order or other "disqualifying event" under the rule which has not been waived. The definition of "covered person" includes an issuer's directors, general partners, managing members and executive officers; affiliates who are also issuing securities in the offering; beneficial owners of 20% or more of the issuer's outstanding equity securities; and promoters and persons compensated for soliciting investors in the offering. Accordingly, our ability to rely on Rule 506 to offer or sell securities would be impaired if we or any "covered person" is the subject of a disqualifying event under the rule and we are unable to obtain a waiver. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

***We and our affiliates from time to time are required to report specified dealings or transactions involving Iran or other sanctioned individuals or entities.***

The Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA") expands the scope of U.S. sanctions against Iran. Additionally, Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Companies that currently may be or may have been at the time considered our affiliates have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 5, 2016 and August 4, 2016, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an

investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the U.S. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, in recent years, senior officials at the SEC implemented a “broken windows” policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which imposed significant changes on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

- As described elsewhere in this Annual Report on Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC. Private equity and hedge fund advisers registered with the SEC under the Advisers Act are required to maintain extensive records and to file reports.
- On December 16, 2015, the Commodity Futures Trading Commission (“CFTC”) published a final rule governing margin requirements for uncleared swaps entered into by swap dealers and major swap participants subject to CFTC regulation. The final rule, which became effective on April 1, 2016, generally requires covered swap entities, subject to certain thresholds and exemptions for inter-affiliate swaps, to collect and post margin in respect of uncleared swap transactions with other covered swap entities and financial end-users. These newly adopted rules on margin requirements for uncleared swaps could adversely affect our business, including our ability to enter such swaps or our available liquidity.
- The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. On May 16, 2016, the SEC re-proposed a rule, as part of a joint rulemaking effort with U.S. federal banking regulators that would apply to “covered financial institutions,” including registered investment advisers and broker-dealers that have total consolidated assets of at least \$1 billion, and imposes substantive and procedural requirements on incentive-based compensation arrangements. If adopted, the application of this rule to us could limit our ability to recruit and retain investment professionals and senior management executives. However, the proposed rule remains pending and may be subject to significant modifications in 2017.
- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities had a so-called “conformance period,” which ran until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an extension by the Federal Reserve or an exemption for certain “permitted activities.” On December 10, 2013, the Federal Reserve and other federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. For investments in and relationships with

certain funds that were in place prior to December 31, 2013, the Federal Reserve has granted a series of extensions that give banking entities until July 21, 2017 to comply with the Volcker Rule. In addition, a separate extension of up to five years may be sought by banking entities for investments in certain illiquid funds. Divestitures by banking entities of impermissible ownership interests in covered funds to comply with the Volcker Rule may lead to lower prices in the secondary market for interests in our funds, which could have adverse implications for our ability to raise funds from investors who may have considered the availability of secondary market liquidity as a factor in determining whether to invest.

- The Dodd-Frank Act amends the Exchange Act to direct the Federal Reserve and other federal regulatory agencies to adopt rules requiring sponsors of asset-backed securities to retain at least 5% of the credit risk relating to the assets that underlie such asset-backed securities. In October 2014, five federal banking and housing agencies (the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Reserve, the Department of Housing and Urban Development, and the Federal Housing Finance Agency) and the SEC issued the final credit risk retention rules (the “U.S. Risk Retention Rules”). With respect to the regulation of CLOs, the U.S. Risk Retention Rules generally require that the “sponsor” (which, in most cases, will be us) or a “majority-owned affiliate” thereof (in each case as defined in the U.S. Risk Retention Rules) will retain an “eligible vertical interest” or an “eligible horizontal residual interest” (in each case as defined therein) or any combination thereof in the CLO in the manner required by the U.S. Risk Retention Rules. The U.S. Risk Retention Rules became effective on December 24, 2016 and CLOs issued prior to that date are exempt from the requirements set forth in the U.S. Risk Retention Rules, except in connection with any offer and sale of securities thereunder after the U.S. Risk Retention Rules effective date, which may include circumstances in which the CLO documentation is amended in a material way, or the relevant CLO securities are repriced or refinanced. The U.S. Risk Retention Rules contain provisions that may have adverse effects on us, including the obligation to acquire the required retention interest and hold it for a period of several years, during which we may not hedge the credit risk exposure associated with such securities. The U.S. Risk Retention Rules permit the financing of a required retention interest, provided that such financing be on a full recourse basis. To the extent that we were to employ leverage for our required retention investments, that could cause losses to be earlier and larger than they would have been if leverage were not employed.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

There has been increasing commentary amongst regulators and intergovernmental institutions, including the Financial Stability Board (“FSB”) and International Monetary Fund, on the topic of so-called “shadow banking,” a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system. Although private equity firms have generally not been the focus of this commentary in recent months, if regulators were to extend regulatory and supervisory requirements currently applicable to banks to certain sectors or funds of our business or if we are considered to be engaged in “shadow banking,” the regulatory and operating costs associated therewith could adversely impact our business. In the United States:

- The process established by the Dodd-Frank Act for designation of systemically important non-bank firms has provided a means for ensuring that the perimeter of prudential regulation can be extended as appropriate to cover a non-bank firm. The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies determined to be “systemically important” for supervision by the Federal Reserve. Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States.
- On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate non-bank financial companies as systemically important. The final rule and interpretive



guidance details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC applies a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC considers whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. On April 18, 2016, the FSOC released an update on its multi-year review of asset management products and activities and created an interagency working group to assess potential risks associated with certain leveraged funds. To date, the FSOC has not designated any asset management firms or funds, including Blackstone, as a systemically important financial institution. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve. To date, the FSOC has made designations of four non-bank companies as “systemically important” subject to Federal Reserve supervision. The FSOC has since rescinded one such company’s designation, and a federal court, in a decision that is under appeal, has rescinded a second company’s designation.

- On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.
- In connection with the work of the FSOC, on October 31, 2011, the SEC and the CFTC issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports, on Form PF, focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing and their funds’ investments in financial institutions.

Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser’s employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding “pay to play” practices by investment advisers.

In June 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, announced the final framework for a comprehensive set of capital and liquidity standards, commonly referred to as “Basel III,” for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by member states. In July 2013, the U.S. federal banking regulators announced the adoption of final regulations to implement Basel III for U.S. banking organizations, subject to various transition periods. Compliance with the Basel III

standards may result in significant costs to banking organizations, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See “— Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.”

In March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. In November 2015, in connection with the banking agencies’ most recent review of large credits under the Shared National Credit review, the agencies noted high credit risk and weaknesses related to leveraged lending and for loans related to oil and gas exploration, production and energy services. To the extent that such guidance limits the amount or cost of financing we are able to obtain for our transactions, the returns on our investments may suffer. In addition, in December 2015, the U.S. federal banking agencies issued a statement cautioning financial institutions on rising concentrations in commercial real estate and an easing of related underwriting standards.

In addition, in December 2015, the SEC proposed a new rule that would reduce the ability of registered investment companies to utilize derivatives and other instruments that could be deemed to leverage a fund’s portfolio, which if adopted in its current form, may impact the ability of certain of our registered funds to continue pursuing certain aspects of their current investment strategies.

In addition, in April 2016, the U.S. Department of Labor (the “DOL”) issued a final rule, which generally takes effect on April 10, 2017 and among others things, expands the definition of “investment advice fiduciary” under ERISA and thereby the circumstances in which certain investment advisers and other intermediaries are treated as fiduciaries to ERISA plans and individual retirement accounts. On February 3, 2017, President Trump issued a memorandum asking the DOL to examine the final rule. Whether the final rule will take effect in its current form and/or on the currently proposed timing is impossible to determine. The final rule, if implemented, could have an adverse effect on the distribution of our products to certain investors.

Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional compliance and other costs, increase regulatory investigations of the investment activities of our funds, require the attention of our senior management, affect the manner in which we conduct our business and adversely affect our profitability. The full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed, including by the Trump administration, which has expressed support for potential modifications to the Dodd-Frank Act and other deregulatory measures, is impossible to determine.

***Financial deregulation measures proposed by the Trump administration and members of the U.S. Congress may create regulatory uncertainty for the financial sector, increase competition in certain of our investment strategies and adversely affect our business, financial condition and results of operations.***

The Trump administration’s short-term legislative agenda may include certain deregulatory measures for the U.S. financial services industry, including changes to the Volcker Rule, the U.S. Risk Retention Rules, Basel III capital requirements, the FSOC’s authority and other aspects of the Dodd-Frank Act. On February 3, 2017, President Trump signed an executive order calling for the administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. One bill, the Financial CHOICE Act (the “CHOICE Act”), which was sponsored by Rep. Jeb Hensarling last year, is being discussed as an avenue for amending the Dodd-Frank Act and may be subject to certain revisions in the near-term. The CHOICE Act would eliminate the power of the FSOC to designate non-bank financial institutions as systemically important, repeal the Volcker Rule and change the structure and powers of the Consumer Financial Protection Bureau. In addition, the CHOICE Act would allow certain qualifying banking organizations with a satisfactory composite supervisory rating and a non-risk weighted leverage ratio of at least 10% to elect to be exempt from risk-weighted capital ratios, liquidity requirements and other regulations currently applicable to

banking organizations, and would revise the U.S. Risk Retention Rules to remove the risk retention requirement for all asset-backed securitizations other than for certain non-qualifying residential mortgage securitizations. The CHOICE Act is also expected to significantly alter stress testing, possibly exempting qualifying banking organizations from stress tests altogether and eliminating the Federal Reserve Board's ability to make "qualitative" objections to capital plans submitted by other banking organizations. In addition, the CHOICE Act would also significantly enhance the SEC's enforcement capabilities and increase the maximum civil penalties and criminal sanctions under federal securities laws, including under the 1940 Act and the Advisers Act.

Whether the CHOICE Act will be enacted, and if so, whether additional amendments would be added during the legislative process remains unclear. However, the results of the recent elections have increased the likelihood that the CHOICE Act or similar financial reform legislation will be enacted. In addition, in the absence of legislative change, the Trump administration may influence the substance of regulatory supervision through the appointment of individuals to the Federal Reserve Board. On February 10, 2017, Daniel K. Tarullo submitted his resignation as a member of the Federal Reserve Board to President Trump, effective on or around April 5, 2017. Governor Tarullo currently serves as the Chairman of the Federal Reserve Board's Committee on Supervision and Regulation and has served as Chairman of the Financial Stability Board's Standing Committee on Supervisory and Regulatory Cooperation. As a result of Governor Tarullo's resignation, President Trump is expected to soon be able to nominate three of the Federal Reserve Board's seven seats, including a Vice Chairman for Supervision. The nominations by Mr. Trump may increase the likelihood that the Federal Reserve Board will depart from adopting capital and liquidity requirements for U.S. banking organizations that are more stringent than those that have been agreed upon at the international level, including through the Basel Committee on Banking Supervision's Basel III framework.

Measures focused on deregulation of the U.S. financial services industry may have the effect of increasing competition for our credit-focused businesses or otherwise reducing investment opportunities. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect the revenues of our credit and other businesses whose strategies include the provision of credit to borrowers.

Determining the full extent of the impact on us or any of our funds' portfolio companies of any such potential financial reform legislation, or whether any such particular proposal will become law, is impossible. However, any such changes may impose additional costs on us and our funds' portfolio companies, require the attention of our senior management or result in limitations on the manner in which business is conducted, or may ultimately have an adverse impact on the competitiveness of certain non-bank financial service providers vis-à-vis traditional banking organizations.

***The potential for governmental policy changes and regulatory reform by the Trump administration and the U.S. Congress as a result of the recent U.S. Presidential and Congressional elections may create regulatory uncertainty for our funds' portfolio companies and our investment strategies and adversely affect the profitability of our funds' portfolio companies.***

Governmental policy changes and regulatory reform could have a material impact on the investment strategies of our funds. A prolonged environment of regulatory uncertainty may make the identification of attractive investment opportunities and the deployment of capital more challenging. In addition, our ability to identify business and other risks associated with new investments depends in part on our ability to anticipate and accurately assess regulatory and other changes that may have a material impact on the businesses in which we choose to invest. The failure to accurately predict the possible outcome of policy changes and regulatory reform could have a material adverse effect on the returns generated from our funds' investments and our revenues.

The Trump administration has expressed intent to pursue governmental policy changes and/or regulatory reform in multiple areas, including tax, international trade, immigration, healthcare, labor, infrastructure and energy. While there is currently a substantial lack of clarity around the likelihood, timing and details of many such potential

changes, such changes may adversely affect the companies in which we have invested or choose to invest in the future in a number of ways, including, without limitation:

- Immigration reform, a core component of President Trump’s campaign, has been an early area of focus for his administration. Although the details and timing of potential changes to immigration law are difficult to predict, restrictions on the ability of individuals from certain countries to obtain non-immigrant visas or limitations on the number of individuals eligible for U.S. work visas may make it more difficult for current and future portfolio companies to recruit and retain skilled foreign workers and may increase labor and compliance costs.
- The House Blueprint published by Republican members of the U.S. House of Representatives in June 2016 proposed changes that would limit the deductibility of net interest expense. Many of our funds’ portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations and to make acquisitions, and limitations on the deductibility of interest expense could subject such portfolio companies to increased tax liability and adversely affect their profitability.
- President Trump has raised the possibility of greater restrictions on international trade and significant increases to tariffs on goods imported into the U.S., particularly from China. In addition, the House Blueprint published by Republican members of the U.S. House of Representatives in June 2016 proposed changes that would exempt from U.S. taxation any profits from the export of goods and services from the U.S. and effectively subject to a 20% tax any imports (by both businesses and consumers) to the U.S., referred to as “border adjustability.” Changes to international trade agreements or the imposition of tariffs or other trade barriers could increase costs, decrease margins, reduce the competitiveness of products and services offered by current and future portfolio companies and adversely affect the revenues and profitability of companies whose businesses rely on goods imported from outside of the U.S. While border adjustability is designed to be offset by changes in value of the U.S. dollar, that premise may not be realized in whole or in part.
- President Trump has expressed support for widespread healthcare reform and the repeal of all or portions of the Patient Protection and Affordable Care Act (“ACA”). An increase in the size of the uninsured population or a reduction in funds presently available to patients as a result of repeal of significant portions of the ACA could adversely affect multiple businesses in the healthcare industry, including pharmaceutical companies that benefit from purchases by individuals covered by government-subsidized insurance, hospitals that may be required to increase write-offs for bad debt resulting from the inability of insured patients to pay for care and insurance companies that have developed effective plans for participating in healthcare exchanges.

Although there is a substantial lack of clarity regarding the likelihood, timing and details of any such potential changes, such changes may impose additional costs on the companies in which we have invested or choose to invest in the future, require the attention of senior management or result in limitations on the manner in which the companies in which we have invested or choose to invest in the future conduct business.

***Changes in U.S. and foreign tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act (“FATCA”), all entities in a broadly defined class of foreign financial institutions (“FFIs”) are required to comply with a complicated and expansive reporting regime or be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic

costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors. Other countries such as the United Kingdom and the Cayman Islands have implemented regimes similar to that of FATCA. For example, under an initiative known as Global FATCA, more than 100 OECD member countries have committed to automatic exchange of information relating to accounts held by tax residents of signatory countries, using a Common Reporting Standard (“CRS”). Reporting under CRS is scheduled to commence in 2017 in countries that have signed on as “early adopters.” Compliance with such regimes could result in increased administrative and compliance costs and could subject our investment entities to increased non-U.S. withholding taxes.

***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Union Alternative Investment Fund Managers Directive (the “AIFMD”), as transposed into national law within the member states of the European Union (the “EU”), established a new regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. The AIFMD is intended to apply in the additional member states of the European Economic Area (“EEA”), namely, Norway, Iceland and Liechtenstein, but to date the AIFMD has not yet been referenced in the Agreement on the European Economic Area (but on the assumption that the AIFMD will apply harmonized requirements throughout the EEA, we refer to the EEA rather than to the EU). The AIFMD regulates managers established in or with a registered office in the EEA managing one or more alternative investments funds, but it also regulates non EEA-based managers, such as our affiliates, when they seek to market securities of alternative investment funds in the EEA. We have had to comply with these and other requirements of the AIFMD in order to market our investment funds to professional investors in the EEA, including compliance with prescribed pre-investment disclosures, prescribed annual report disclosures, periodic reporting to regulators in respect of each fund marketed, and asset-stripping restrictions in relation to the acquisition of non-listed companies or issuers established in the EEA (these restrictions prohibit certain distributions to shareholders for 24 months following closing of an acquisition). As there is no requirement for member states to operate or maintain a national private placement regime and, if they do, the member state is free to impose rules that are stricter than the minimum required, this has restricted our ability to market our investment funds, e.g., in those states that do not operate national private placement and/or impose such requirements that make it disproportionately burdensome to do so.

In late 2016, we commenced the process of establishing an authorized manager (“AIFM”) in Luxembourg. A fully-authorized AIFM is entitled to market a fund established in the EEA (an “EEA AIF”) to professional investors in the EEA. The Luxembourg AIFM is primarily intended to manage European fund structures that can be marketed to EEA investors under the passport and that can invest in parallel with our non-EEA funds. The European funds will be managed by the AIFM, but will draw on the expertise of the U.S. managers to pursue the relevant investment strategies.

As an authorized AIFM is subject to all of the requirements of the AIFMD, such as rules relating to, among other things, remuneration, minimum regulatory capital requirements, restrictions on the use of leverage, requirements in relation to liquidity, risk management and valuation of assets, the establishment of a platform in the EEA may increase the ongoing cost of administration and compliance with the AIFMD, including costs and expenses of collecting and collating data of the EEA funds and the preparation of regular reports to be filed with the regulator. The advantages of this structure potentially come at a cost of greater overall complexity, higher compliance and administration costs and less overall flexibility.

Following the financial crisis the FSB has taken on an increasingly important role in promoting the reform of international financial regulation through coordinating national financial authorities and international standard-

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setting bodies in their development of regulatory, supervisory and financial sector policies. One of the risks identified by the FSB to the stability of the financial system is credit intermediation (involving maturity and liquidity transformation) and/or a build-up of leverage by non-bank entities — so-called “shadow banking”. The FSB has proposed adoption of a two-pronged strategy to address financial stability risks in shadow banking: (a) create a monitoring framework to track developments in shadow banking; and (b) coordinate and contribute to the development of policies to strengthen oversight and regulation of shadow banking, focusing on measures to: (i) mitigate risks in banks’ interactions with shadow banking entities; (ii) reduce the susceptibility of money market funds to “runs”; (iii) improve transparency and align the incentives in securitization; (iv) dampen pro-cyclicality and other financial stability risks in securities financing transactions such as repos and securities lending; and (v) assess and mitigate financial stability risks posed by other shadow banking entities and activities.

In December 2015, the European Banking Authority (“EBA”) produced guidelines to set appropriate aggregate limits to shadow banking entities when carrying out banking activities. These guidelines came into effect on January 1, 2017. While most alternative investment funds are excluded from the definition of “shadow banking entity,” funds that use leverage on a substantial basis at fund level or have certain third party lending exposures are within the definition. When dealing with shadow banking entities, the EEA financial institution would be required to implement additional effective processes (including with respect to due diligence) and set internal aggregate and individual limits to such exposures where they exceed 0.25% of the institution’s eligible capital. While the guidelines do not themselves introduce a quantitative limit to institutions’ exposures to shadow banking entities at the individual or aggregate exposure level, they place the responsibility on the banking sector to demonstrate that risks are managed effectively. Affected institutions will be required to set internal aggregate and individual limits to exposures to individual shadow banking entities which could limit or restrict the availability of credit and/or increase the cost of credit from these institutions for impacted funds.

In July 2016, Germany introduced legislation to prohibit banks above a certain threshold from conducting credit and guarantee business with: (i) German hedge funds or German funds of hedge funds or (ii) non-German funds which use leverage on a substantial basis within the meaning of the AIFMD. In Germany, certain banks are therefore forbidden from providing loans and/or guarantees to an AIF using leverage on a substantial basis, thereby potentially limiting or restricting the availability of credit and/or increasing the cost of credit for affected funds.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone’s non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the American Investment Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our funds’ portfolio companies. Moreover, sensitive business information relating to us or our funds’ portfolio companies could be publicly released.

***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds’ use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, September 2010, August 2012, April 2014, April 2015, May 2015 and October 2016, we issued (a) \$600 million of 6.625% ten-year senior notes, (b) \$400 million of 5.875% ten-year senior notes, (c) \$400 million of 4.75% ten-year senior notes and \$250 million of 6.25% thirty-year senior notes, (d) \$500 million of 5% thirty-year senior notes, (e) \$350 million of 4.45% thirty-year senior notes, (f) €300 million of 2% ten-year senior notes, and (g) €600 million of 1% ten-year senior notes, respectively. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under “— Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of

return on those investments.” In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We have a credit facility which provides for revolving credit borrowings that has a final maturity date of August 31, 2021. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or by issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds’ use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against the financial services industry in general have been increasing. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the risk of third party litigation arising from investor dissatisfaction with the performance of those investment funds, alleged conflicts of interest, the activities of our funds’ portfolio companies and a variety of other litigation claims. From time to time we, our funds and our funds’ portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see “Item 3. Legal Proceedings” below for additional information.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

The activities of our capital markets services business may also subject us to the risk of liabilities to our clients and third parties, including our clients’ stockholders, under securities or other laws in connection with transactions in which we participate.

In addition, our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets, businesses and distribution channels, including the retail channel. To the extent we distribute products through new channels, including through unaffiliated firms, we may not be able to effectively monitor or control the manner of their distribution, which could result in litigation against us, including with respect to, among other things, claims that products distributed through such channels are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner. In addition, the distribution of products through new channels whether directly or through market intermediaries, including in the retail channel, could expose us to additional regulatory risk in the form of allegations of improper conduct and/or actions by state and federal regulators against us with respect to, among other things, product suitability, conflicts of interest and the adequacy of disclosure to customers to whom our products are distributed through those channels.

If any private lawsuits or regulatory actions were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our

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business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities, our new lines of business or distribution channels, or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our funds' portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. Detecting or deterring employee misconduct is not always possible, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the Foreign Corrupt Practices Act ("FCPA"). In addition, the United Kingdom has also significantly expanded the reach of its anti-bribery laws. Local jurisdictions, such as Brazil, have also recently brought a greater focus to anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA, the U.K. anti-bribery laws or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we may also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, financial fraud or other deceptive practices at our funds' portfolio companies, or failures by personnel at our funds' portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements, could cause significant reputational and business harm to us. Such misconduct may undermine our due diligence efforts with respect to such portfolio companies and could negatively affect the valuations of the investments by our funds in such portfolio companies. In addition, we may face an increased risk of such misconduct to the extent our investment in non-U.S. markets, particularly emerging markets, increases.

***Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.***

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund's life, the fund does not achieve certain investment returns for the fund over its life, we



will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which the relevant general partner is ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds' performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue.

***Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.***

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market and the asset allocation rules or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been, and may in the future be, exacerbated by economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although the amount of commitments investors are making to alternative investment funds has increased in recent years, there is no assurance that this will continue or that our ability to raise capital from investors will not be hampered. In addition, our ability to raise capital from third parties outside of the U.S. could be limited to the extent other countries, such as China, impose restrictions or limitations on outbound foreign investment.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as profitable for us as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients. As some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new

investors in order to maintain or increase the size of our investment funds. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

Although retail investors have been part of our historic distribution efforts, we have increasingly undertaken business initiatives to increase the number and type of investment products we offer to high net worth individuals, family offices and other mass affluent investors. In some cases we seek to distribute our unregistered funds to such retail investors indirectly through feeder funds sponsored by brokerage firms or private banks and in other cases directly to the qualified clients of independent investment advisors and brokers. In other cases we create registered investment products specifically designed for retail investors. Our initiatives to access retail investors entail the investment of resources and our objectives may not be fully realized. Moreover, accessing retail investors and selling retail directed products exposes us to new and greater levels of risk, including heightened litigation and regulatory enforcement risks. Although we seek to ensure through due diligence and onboarding procedures that the channels through which retail investors access our investment products conduct themselves responsibly, to the extent that our investment products are being distributed through third parties we are exposed to reputational damage and possible legal liability to the extent such third parties improperly sell our products to investors. Similarly, the hiring of employees to cover independent advisors and brokers presents risks if they fail to follow training, review and supervisory procedures.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so in our funds. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ("cap rates") analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or

transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's fair value. In determining fair values of exploration and production (E&P) investments within the energy sector, we consider the following: projected operating cash flows resulting from the utilization of third party analysis of the reserve quantities, which may from time to time be adjusted for management's view, combined with the forward strip price for the specific commodity in the near-term, BEP's long-term view of the commodity price in the outer years, sales of comparable assets, and replacement costs. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as barrel of oil equivalent, or BOE, by a relevant reserve metric observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to other similar methods. Additionally, where applicable, given the structured nature of some of the preferred securities, projected distributable cash flow through maturity or other triggering events will also be considered in support of the investment's fair value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- we may create new funds in the future that reflect a different asset mix and different investment strategies, as well as a varied geographic and industry exposure as compared to our present funds, and any such new funds could have different returns from our existing or previous funds,
- as the global markets rebounded from the financial crisis in recent years, market conditions were largely favorable, which helped to generate positive performance, particularly in our private equity and real estate businesses, although there can be no assurance that such conditions will repeat or that our current or future investment funds will avail themselves of comparable market conditions,
- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,
- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,
- in recent years, there has been increased competition for private equity investment opportunities resulting from, among other things, the increased amount of capital invested in alternative investment funds,
- our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves, our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and the circumstances under which our current or future funds may make future investments may differ significantly from those conditions prevailing in the past,
- newly established funds may generate lower returns during the period in which they initially deploy their capital, and
- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

The future internal rate of return for any current or future fund may vary considerably from the historical internal rate of return generated by any particular fund, or for our funds as a whole. In addition, future returns will be affected by the applicable risks described elsewhere in this Annual Report on Form 10-K, including risks of the industries and businesses in which a particular fund invests.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, in March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. In November 2015, in connection with the banking agencies' most recent review of large credits under the Shared National Credit review, the agencies noted high credit risk and weaknesses related to leveraged lending and for loans related to oil and gas exploration, production and energy services. Such guidance may limit the amount or cost of financing we are able to obtain for our transactions, and as a result, the returns on our investments may suffer. See "— Regulatory changes in the United States could adversely affect our business." Furthermore, any tax reform limiting the deductibility of corporate interest expense could make it more costly to use debt financing for our acquisitions or otherwise have an

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adverse impact on the cost structure of our transactions, and could therefore adversely affect the returns on our funds' investments. See “— Possible U.S. federal income tax reform, could adversely affect us.”

In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high yield debt securities issued in the capital markets. Availability of capital from the high yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory pre-payments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded

leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost — and the timing and magnitude of such losses may be accelerated or exacerbated — in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund’s net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund’s net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make. In addition, to the extent that any changes in tax law make debt financing less attractive to certain categories of borrowers this could adversely affect the investment opportunities for our credit-focused funds.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

***The asset management business is intensely competitive.***

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds), and we expect that competition will continue to increase. A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,
- some of our funds may not perform as well as competitors’ funds or other available investment products,
- several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,
- some of our competitors, particularly strategic competitors, may have a lower cost of capital, which may be exacerbated to the extent potential changes to the Internal Revenue Code limit the deductibility of interest expense,
- some of our competitors may have access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,
- some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,
- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,
- some of our competitors may be more successful than us in the development and implementation of new technology to address investor demand for product and strategy innovation, particularly in the hedge fund industry,
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,

- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,
- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. Furthermore, any deregulatory measures for the U.S. financial services industry undertaken by the U.S. Congress or the Trump administration may create additional competition, particularly with respect to our credit-focused funds. See “— Financial deregulation measures proposed by the Trump administration and members of the U.S. Congress may create regulatory uncertainty for the financial sector, increase competition in certain of our investment strategies and adversely affect our business, financial condition and results of operations.”

This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds’ investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Moreover, because the investment strategy of many of our funds, particularly our private equity funds, often entails our having representation on our funds' public portfolio company boards, our funds may be restricted in their ability to effect such sales during certain time periods. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer — potentially for a considerable period of time — sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as “consortium transactions” due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in “— Our investment funds make investments in companies that we do not control.”

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.



***Our investment funds make investments in companies that we do not control.***

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our flagship and core private equity funds and our opportunistic and core+ real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in “— We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments”) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. In addition, to the extent we hold only a minority equity interest in a company, we may lack affirmative control rights, which may diminish our ability to influence the company’s affairs in a manner intended to enhance the value of our investment in the company. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

***We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds’ portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,
- heightened exposure to corruption risk in non-U.S. markets,
- political hostility to investments by foreign or private equity investors,
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,
- higher rates of inflation,
- higher transaction costs,
- difficulty in enforcing contractual obligations,
- fewer investor protections and less publicly available information in respect of companies in non-U.S. markets,
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and

- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

In addition, investments in companies that are based outside of the United States are subject to the risk of the possibility of restrictions on international trade or the imposition of tariffs, both of which President Trump has raised as a possibility. See “— The potential for governmental policy changes and regulatory reform by the Trump administration and the U.S. Congress as a result of the recent U.S. Presidential and Congressional elections may create regulatory uncertainty for our funds’ portfolio companies and our investment strategies and adversely affect the profitability of our funds’ portfolio companies.”

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

***We may not have sufficient cash to pay back “clawback” obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds, real estate debt funds, core+ real estate funds and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in any carry fund’s life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of the relevant carried interest percentage(s) applicable to the fund as applied to the fund’s cumulative net profits over the life of the fund, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds the amounts to which the relevant general partner is ultimately entitled on an after tax basis. This obligation is known as a “clawback” obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and performance of other funds are not netted for determining this contingent obligation.

Adverse economic conditions may increase the likelihood that one or more of our carry funds may be subject to clawback obligations upon the end of their respective lives (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds). To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) beyond what we actually received in carried interest, although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of

insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn, subject to the applicable fund's specific redemption provisions. In addition, we have certain other open-ended funds, including core+ real estate and certain real estate debt funds, which contain similar redemption provisions in their governing documents. In a declining market, many hedge funds and other open-ended funds, including some of our funds, may experience declines in value, and the pace of redemptions and consequent reduction in our assets under management could accelerate. Such declines in value may be both provoked and exacerbated by margin calls and forced selling of assets. To the extent appropriate and permissible under a fund's constituent documents, we may limit or suspend redemptions during a redemption period, which may have a reputational impact on us. See "— Hedge fund investments are subject to numerous additional risks." The decrease in revenues that would result from significant redemptions in our hedge funds and other open-ended funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice. In addition, the boards of directors of the investment management companies we manage, or the adviser in respect of the registered BDCs we sub-advise, could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a "clawback" obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases, a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any

reason, the investment period by a vote of 75% of the investors in such fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an “assignment,” without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our 1940 Act registered funds, each investment fund’s investment management agreement must be approved annually by the independent members of such investment fund’s board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund’s operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. A default by an investor may also limit a fund’s availability to incur borrowings and avail itself of what would otherwise have been available credit. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. Third party investors in private equity, real estate and venture capital funds typically use distributions from prior investments to meet future capital calls. In cases where valuations of investors’ existing investments fall and the pace of distributions slows, investors may be unable to make new commitments to third party managed investment funds such as those advised by us. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.***

Because of our various lines of asset management businesses and our capital markets services business, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

***Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds’ investment activities. A decision to acquire material

non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds to the extent the fund documents do not mandate a specific investment allocation. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. In addition, the challenge of allocating investment opportunities to certain funds may be exacerbated as we expand our business to include more public vehicles. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation or regulatory action against us.

***Risk management activities may adversely affect the return on our funds' investments.***

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC may in the future require certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges.

***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets, including the deterioration of real estate fundamentals. These

risks include but are not limited to, those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, operating income, the financial resources of tenants, changes in building, environmental, zoning and other laws, casualty or condemnation losses, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, acts of god, terrorist attacks, war and other factors that are beyond our control. According to publicly released statements, a top legislative priority of the Trump administration and the new U.S. Congress is significant tax reform, including significant changes to the taxation of business entities and the deductibility of corporate interest expense. Certain aspects of any such reform could potentially negatively impact investments in real estate. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. In addition, our real estate funds may also make investments in residential real estate projects and/or otherwise participate in financing opportunities relating to residential real estate assets or portfolios thereof from time to time, which may be more highly susceptible to adverse changes in prevailing economic and/or market conditions and present additional risks relative to the ownership and operation of commercial real estate assets.

***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation.

In addition, at least one federal Circuit Court has determined that an investment fund could be liable for ERISA Title IV pension obligations (including withdrawal liability incurred with respect to union multiemployer plans) of its portfolio companies, if such fund is a "trade or business" and the fund's ownership interest in the portfolio company is significant enough to bring the portfolio company within its "controlled group." While a number of cases have held that managing investments is not a "trade or business" for tax purposes, the Circuit Court in this case concluded the an investment fund could be a "trade or business" for ERISA purposes based on certain factors,

including the fund's level of involvement in the management of its portfolio companies and the nature of its management fee arrangements. Ongoing litigation related to the Circuit Court's decision suggests that additional factors may be relevant for purposes of determining whether an investment fund could face "controlled group" liability under ERISA, including the structure of the investment and the nature of the fund's relationship with other affiliated investors and co-investors in the portfolio company. Moreover, regardless of whether or not an investment fund is determined to be a "trade or business" for purposes of ERISA, a court might hold that one of the fund's portfolio companies could become jointly and severally liable for another portfolio company's unfunded pension liabilities pursuant to the ERISA "controlled group" rules, depending upon the relevant investment structures and ownership interests as noted above.

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, approximately 66% of the investments of our real estate funds (based on fair values as of December 31, 2016) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.***

The development, operation and maintenance of power and energy generation facilities involves many risks, including, as applicable, labor issues, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities and the dependence on a specific fuel source. Power and energy generation facilities in which our funds invest are also subject to risks associated with volatility in the price of fuel sources and the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability. The occurrence of any such items could result in lost revenues and/or increased expenses. In turn, such developments could impair a portfolio company's ability to repay its debt or conduct its operations. We may also choose or be required to decommission a power generation facility or other asset. The decommissioning process could be protracted and result in the incurrence of significant financial and/or regulatory obligations or other uncertainties.

Our power and energy sector portfolio companies may also face construction risks typical for power generation and related infrastructure businesses. Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher operation and maintenance costs related to such portfolio company.

The power and energy sectors are the subject of substantial and complex laws, rules and regulation by various federal and state regulatory agencies. Failure to comply with applicable laws, rules and regulations could result in the prevention of operation of certain facilities or the prevention of the sale of such a facility to a third party, as well as the loss of certain rate authority, refund liability, penalties and other remedies, all of which could result in additional costs to a portfolio company and adversely affect the investment results. In addition, any legislative efforts by the Trump administration or the new U.S. Congress to overturn or modify policies or regulations enacted by the prior administration that placed limitations on coal and gas electric generation, mining and/or exploration could adversely affect certain of our energy investments, including our alternative energy investments. Conversely, any governmental policy changes encouraging resource extraction could have the effect of supporting low energy prices, which could have a negative impact on certain of our energy investments.

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Our businesses that invest in the energy industry also focus on investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including:

- the use of new technologies, including hydraulic fracturing,
- reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and
- encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks.

In addition, the performance of the investments made by our credit and equity funds in the energy and natural resources markets are also subject to a high degree of market risk, as such investments are likely to be, directly or indirectly substantially dependent upon prevailing prices of oil, natural gas and other commodities. Oil and natural gas prices are subject to wide fluctuation in response to factors beyond the control of us or our funds' portfolio companies, including relatively minor changes in the supply and demand for oil and natural gas, market uncertainty, the level of consumer product demand, weather conditions, governmental regulation, the price and availability of alternative fuels, political and economic conditions in oil producing countries, foreign supply of such commodities and overall domestic and foreign economic conditions. These factors make it difficult to predict future commodity price movements with any certainty.

### ***The financial projections of our funds' portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

### ***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

### ***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund



investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

***Hedge fund investments are subject to numerous additional risks.***

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.
- Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.
- Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the

event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets.

***We are subject to risks in using prime brokers, custodians, counterparties, administrators and other agents.***

Many of our funds depend on the services of prime brokers, custodians, counterparties, administrators and other agents to carry out certain securities and derivatives transactions. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight, although the Dodd-Frank Act provides for new regulation of the derivatives market. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur suddenly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack contractual recourse or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which is when defaults are most likely to occur.

In addition, our risk management process may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not have taken sufficient action to reduce our risks effectively. Default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

Although we have risk management processes to ensure that we are not exposed to a single counterparty for significant periods of time, given the large number and size of our funds, we often have large positions with a single counterparty. For example, most of our funds have credit lines. If the lender under one or more of those credit lines were to become insolvent, we may have difficulty replacing the credit line and one or more of our funds may face liquidity problems.

In the event of a counterparty default, particularly a default by a major investment bank or a default by a counterparty to a significant number of our contracts, one or more of our funds may have outstanding trades that

they cannot settle or are delayed in settling. As a result, these funds could incur material losses and the resulting market impact of a major counterparty default could harm our businesses, results of operation and financial condition.

In the event of the insolvency of a prime broker, custodian, counterparty or any other party that is holding assets of our funds as collateral, our funds might not be able to recover equivalent assets in full as they will rank among the prime broker's, custodian's or counterparty's unsecured creditors in relation to the assets held as collateral. In addition, our funds' cash held with a prime broker, custodian or counterparty generally will not be segregated from the prime broker's, custodian's or counterparty's own cash, and our funds may therefore rank as unsecured creditors in relation thereto. If our derivatives transactions are cleared through a derivatives clearing organization, the CFTC has issued final rules regulating the segregation and protection of collateral posted by customers of cleared and uncleared swaps. The CFTC is also working to provide new guidance regarding prime broker arrangements and intermediation generally with regard to trading on swap execution facilities.

The counterparty risks that we face have increased in complexity and magnitude as a result of disruption in the financial markets in recent years. For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In addition, counterparties have in the past and may in the future react to market volatility by tightening underwriting standards and increasing margin requirements for all categories of financing, which may decrease the overall amount of leverage available and increase the costs of borrowing.

***Underwriting activities by our capital markets services business expose us to risks.***

We act as an underwriter in securities offerings through our capital markets services business. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

**Risks Related to Our Organizational Structure**

***Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.***

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding

limited liability matters. As of December 31, 2016, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 48.2% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to block any removal of our general partner and, given their control of our general partner, control The Blackstone Group L.P.

***Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.***

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner, which our senior managing directors have the ability to block.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes without the approval of our common unitholders. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under "— Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business," our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own

interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,
- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,
- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,
- other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,
- our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,
- our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us,
- our general partner controls the enforcement of obligations owed to us by it and its affiliates, and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See “Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence” and “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone's track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

***We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.***

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and our funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and may change at any time, including, without limitation, to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, including the timing and extent of our realizations, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

***The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.***

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2016, we have \$262.6 million of finite-lived intangible assets (in addition to \$1.7 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from three to twenty years, using the straight-line method, with a weighted-average remaining amortization period of 6.1 years as of December 31, 2016. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the "corporate taxpayers," would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings Partnership Units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings Partnership Units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings Partnership Units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will



vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an "investment company" under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an "investment company" for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and capital markets services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and capital markets firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an "orthodox" investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings Partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings Partnerships and are vested with all management and control over the Blackstone Holdings Partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements

imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

### **Risks Related to Our Common Units**

#### ***Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.***

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 587,607,442 voting common units outstanding as of February 17, 2017. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 535,415,895 Blackstone Holdings Partnership Units outstanding as of February 17, 2017. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings Partnership Units. See "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence — Transactions with Related Persons — Registration Rights Agreement." While the partnership agreements of the Blackstone Holdings Partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it non-voting common units. As of February 17, 2017 Beijing Wonderful Investments owned 54,470,009 non-voting common units. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 17, 2017, we had granted 13,726,487 outstanding deferred restricted common units and 44,046,267 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan ("2007 Equity Incentive Plan"). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of common units and

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Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 167,984,158 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 17, 2017. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

***The market price of our common units may be volatile, which could cause the value of your investment to decline.***

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

**Risks Related to United States Taxation**

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of common unit holders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or “IRS,” and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the “Qualifying Income Exception”), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under “— In past years, the U.S. Congress has considered legislation that, if enacted, would have (a) for

taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units,” the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes. During his presidential campaign, President Trump expressed support for legislation ending treatment of carried interest as capital gain.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders’ beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. The IRS could potentially assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The amount of distributions to our common unitholders and the value of our common units depend in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us. Moreover, our general partner may elect to take actions that result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes without the approval of our common unitholders.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See “— In past years, the U.S. Congress has considered

legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.” For example, because of widespread state budget deficits, several states have evaluated ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the 1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder’s tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder’s tax basis in the units), but will instead report the holder’s allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or “CFC,” and a Passive Foreign Investment Company, or “PFIC,” may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

***The Blackstone Group L.P.’s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

***If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings Partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. As a result, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or "ECI." Moreover, dividends paid by an investment that we make in a REIT that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to certain non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of

income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate. A portion of any gain recognized by a non-U.S. holder on the sale or exchange of common units could also be treated as ECI.

***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as deriving income that constitutes “unrelated business taxable income,” or “UBTI.” Consequently, a holder of common units that is a tax-exempt organization may be subject to “unrelated business income tax” to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders’ tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. The filing all U.S. federal, state and local tax returns that may be required of a common unitholder is the responsibility of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

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*While we anticipate that we will be able to provide to each unitholder specific tax information within 90 days after the close of each calendar year, we cannot guarantee this will be the case. To the extent we are unable to furnish the information within 90 days, holders of common units who are U.S. taxpayers may need to file a request for an extension of the due date of their income return. In addition, common unitholders may be required to file amended income tax returns.*

It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, common unitholder may be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, is the responsibility of each common unitholder.

***Certain U.S. holders of common units are subject to additional tax on “net investment income.”***

U.S. holders that are individuals, estates or trusts are currently subject to a Medicare tax of 3.8% on “net investment income” (or undistributed “net investment income,” in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person’s adjusted gross income (with certain adjustments) over a specified amount (although both Congress and President Trump have recently set forth proposals to repeal this Medicare tax). Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. Net income and gain attributable to an investment in the Partnership will be included in a U.S. holder’s “net investment income” subject to this Medicare tax.

***We may be liable for adjustments to our tax returns as a result of partnership audit legislation.***

Legislation enacted in 2015 significantly changed the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and, unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under the elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. If a partnership elects the alternative procedure for a given adjustment, the amount of taxes for which its partners would be liable would be increased by any applicable penalties and a special interest charge. There can be no assurance that we will be eligible to make such an election or that we will, in fact, make such an election for any given adjustment. If we do not or are not able to make such an election, then (a) our then-current common unitholders, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had we elected the alternative procedure, and (b) a given common unitholder may indirectly bear taxes attributable to income allocable to other common unitholders or former common unitholders, including taxes (as well as interest and penalties) with respect to periods prior to such holder’s ownership of common units. Amounts available for distribution to our common unitholders may be reduced as a result of our obligation to pay any taxes associated with an adjustment. Many issues and the overall effect of this legislation on us are uncertain, and common unitholders should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



**ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2016, we also leased offices in Dublin, Hong Kong, London, Mumbai, Singapore, Tokyo and 23 other cities around the world. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

**ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “Item 1A. Risk Factors” above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, an adverse outcome in certain matters could have a material effect on Blackstone’s financial results in any particular period.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

PART II.

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common units representing limited partner interests are traded on the New York Stock Exchange (“NYSE”) under the symbol “BX.” Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 17, 2017 was 76. This does not include the number of unitholders that hold common units in “street name” through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per common unit, as reported by the NYSE, and the per unit common unitholder and Blackstone Holdings Partnership unitholder distributions for the periods indicated:

	2016				2015			
			Distributions (a)				Distributions (a)	
	High	Low	Common Unitholder	Blackstone Holdings Partnership Unitholder (b)	High	Low	Common Unitholder	Blackstone Holdings Partnership Unitholder (b)
First Quarter	\$29.34	\$22.31	\$ 0.28	\$ 0.28	\$39.62	\$32.36	\$ 0.89	\$ 0.90
Second Quarter	\$29.60	\$23.26	0.36	0.37	\$44.43	\$38.31	0.74	0.74
Third Quarter	\$28.51	\$22.45	0.41	0.45	\$42.60	\$28.56	0.49	0.49
Fourth Quarter	\$30.25	\$23.33	0.47	0.53	\$35.24	\$26.82	0.61	0.65
			\$ 1.52	\$ 1.63			\$ 2.73	\$ 2.78

- (a) Per unitholder distributions earned in each respective quarter. Each quarter’s distributions are declared and paid in the following quarter.  
 (b) Represents the per unit amounts paid to Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

**Cash Distribution Policy**

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.’s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone’s general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to eliminate such distributions entirely.

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Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

- First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),
- Second, we cause The Blackstone Group L.P.'s wholly owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreements by such wholly owned subsidiaries, and
- Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis.

Because the wholly owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 17. "Related Party Transactions" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data," the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are generally expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

In addition, the partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

#### **Unit Repurchases in the Fourth Quarter of 2016**

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended

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December 31, 2016, no units were repurchased. As of December 31, 2016, the amount remaining under this program available for repurchases was \$335.8 million. See “Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 15. Net Income Per Common Unit” and “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Sources and Uses of Liquidity” for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

**ITEM 6. SELECTED FINANCIAL DATA**

The consolidated statements of financial condition and income data as of and for each of the five years ended December 31, 2016 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2016 and 2015 and the Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2014, 2013 and 2012 and the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	<b>Year Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(Dollars in Thousands)				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$ 2,442,975	\$ 2,542,505	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693
Performance Fees	2,176,331	1,796,666	4,374,262	3,544,057	1,593,052
Investment Income	356,051	204,642	534,000	800,308	350,194
Interest and Dividend Revenue and Other	150,477	102,739	79,214	74,818	45,502
<b>Total Revenues</b>	<u>5,125,834</u>	<u>4,646,552</u>	<u>7,484,728</u>	<u>6,613,168</u>	<u>4,019,441</u>
<b>Expenses</b>					
Compensation and Benefits	2,203,430	2,290,751	3,154,371	3,257,667	2,605,244
General, Administrative and Other	520,309	576,103	549,463	474,442	548,738
Interest Expense	152,654	144,522	121,524	107,973	72,870
Fund Expenses	52,181	79,499	30,498	26,658	33,829
<b>Total Expenses</b>	<u>2,928,574</u>	<u>3,090,875</u>	<u>3,855,856</u>	<u>3,866,740</u>	<u>3,260,681</u>
<b>Other Income</b>					
Reversal of Tax Receivable Agreement Liability	—	82,707	—	20,469	—
Net Gains from Fund Investment Activities	184,750	176,364	357,854	381,664	256,145
<b>Total Other Income</b>	<u>184,750</u>	<u>259,071</u>	<u>357,854</u>	<u>402,133</u>	<u>256,145</u>
<b>Income Before Provision for Taxes</b>	2,382,010	1,814,748	3,986,726	3,148,561	1,014,905
<b>Provision for Taxes</b>	132,362	190,398	291,173	255,642	185,023
<b>Net Income</b>	2,249,648	1,624,350	3,695,553	2,892,919	829,882
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	3,977	11,145	74,794	183,315	103,598
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	246,152	219,900	335,070	198,557	99,959
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	960,284	683,516	1,701,100	1,339,845	407,727
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,039,235</u>	<u>\$ 709,789</u>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>	<u>\$ 218,598</u>
	<b>Year Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Net Income Per Common Unit, Basic and Diluted</b>					
Common Units, Basic	<u>\$1.60</u>	<u>\$1.12</u>	<u>\$2.60</u>	<u>\$2.00</u>	<u>\$0.41</u>
Common Units, Diluted	<u>\$1.56</u>	<u>\$1.04</u>	<u>\$2.58</u>	<u>\$1.98</u>	<u>\$0.41</u>
<b>Distributions Declared Per Common Unit (a)</b>	<u>\$1.66</u>	<u>\$2.90</u>	<u>\$1.92</u>	<u>\$1.18</u>	<u>\$0.52</u>

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- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year.

	December 31,				
	2016	2015	2014	2013	2012
	(Dollars in Thousands)				
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$ 26,403,337	\$ 22,526,080	\$ 31,497,097	\$ 29,668,959	\$ 28,921,060
Senior Notes	\$ 3,399,922	\$ 2,797,060	\$ 2,136,706	\$ 1,654,659	\$ 1,660,361
Total Liabilities (a)	\$ 13,888,404	\$ 10,295,623	\$ 14,163,550	\$ 15,291,288	\$ 17,706,113
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 185,390	\$ 183,459	\$ 2,441,854	\$ 1,950,442	\$ 1,556,185
Total Partners' Capital	\$ 12,329,543	\$ 12,046,998	\$ 14,891,693	\$ 12,427,229	\$ 9,658,762

- (a) The decrease in total assets, total liabilities and redeemable non-controlling interests in consolidated entities from December 31, 2014 to December 31, 2015 was principally due to the adoption as of January 1, 2015 of new accounting consolidation guidance which resulted in the deconsolidation of certain Blackstone Funds.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

### Our Business

Blackstone is one of the largest independent managers of private capital in the world. Our business is organized into four segments:

- **Private Equity.** We are a world leader in private equity investing, having managed seven general private equity funds, as well as three sector focused funds, since we established this business in 1987. Our Private Equity segment includes our corporate private equity business, which consists of our flagship corporate private equity funds, Blackstone Capital Partners ("BCP") funds, our sector-focused corporate private equity funds, including our energy-focused funds, Blackstone Energy Partners ("BEP") funds and our core private equity fund, Blackstone Core Equity Partners ("BCEP"). In addition, our Private Equity segment includes our opportunistic investment platform that invests globally across asset classes, industries and geographies, Blackstone Tactical Opportunities ("Tactical Opportunities"), our secondary private equity fund of funds business, Strategic Partners Fund Solutions ("Strategic Partners"), a multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone's key illiquid investment strategies through a single commitment, Blackstone Total Alternatives Solutions ("BTAS") and our capital markets services business, Blackstone Capital Markets ("BXXM").

Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Tactical Opportunities seeks to capitalize on complex and dislocated market situations across asset classes, industries and geographies in a broad range of investments, including private and public securities, and instruments, where the underlying exposure may be to equity, debt, and/or real assets. Strategic Partners focuses on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.

- **Real Estate.** Our Real Estate group is one of the largest real estate investment managers in the world. We operate as one globally integrated business, with investments in North America, Europe, Asia and Latin America.

Our Blackstone Real Estate Partners ("BREP") funds are geographically diversified and target a broad range of "opportunistic" real estate and real estate related investments. The BREP funds include global funds as well as funds focused specifically on Europe or Asia investments. We seek to acquire high quality, well-located yet undermanaged assets at an attractive basis, address any property or business issues through active asset management and sell the assets once our business plan is accomplished. BREP has made significant investments in hotels, office buildings, shopping centers, residential and industrial assets, as well as a variety of real estate operating companies.

Our Blackstone Real Estate Debt Strategies ("BREDS") vehicles target debt investment opportunities collateralized by commercial real estate in both public and private markets, primarily in the U.S. and Europe. BREDS' scale and investment mandates enable it to provide a variety of lending and investment options including mezzanine loans, senior loans and liquid securities. The BREDS platform includes a number of high yield real estate debt funds, liquid real estate debt funds and BXMT, a NYSE-listed REIT.

Our core+ real estate business, Blackstone Property Partners ("BPP") has assembled a global portfolio of high quality core+ investments across the U.S., Europe and Asia. Our BPP vehicles target substantially

stabilized assets in prime markets with a focus on office, multifamily, industrial and retail assets. We manage several core+ real estate funds and a non-exchange traded REIT.

- **Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"). BAAM is the world's largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solutions segment also includes investment platforms that seed new hedge fund businesses, purchase minority ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade directly.
- **Credit.** Our credit business consists principally of GSO Capital Partners LP ("GSO") which was founded in 2005 and subsequently acquired by Blackstone in 2008. GSO is one of the largest leveraged finance-focused alternative asset managers in the world and is the largest manager of CLOs globally. The investment portfolios of the funds we manage or sub-advise predominantly consist of loans and securities of non-investment grade companies spread across the capital structure including senior debt, subordinated debt, preferred stock and common equity.

The GSO business is organized into three overarching strategies: performing credit, distressed and long only. Our performing credit strategies include mezzanine lending funds, business development companies that we sub-advise ("BDCs") and other performing credit strategy funds. Our distressed strategies include hedge fund strategies, rescue lending funds and distressed energy strategies. GSO's long only strategies consist of CLOs, closed end funds, commingled funds and separately managed accounts.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from capital markets services. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as "Performance Fees"). The composition of our revenues will vary based on market conditions and the cyclicity of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

### **Business Environment**

Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

2016 was a year of significant financial market volatility and geopolitical change, including, among other major events, the U.S. presidential election and Brexit. The first six weeks of the year marked one of the worst starts to a year for equities in U.S. history on investor concerns of slowing economic growth and a potential looming recession. The S&P 500 fell 10.5% in the first six weeks of the year while the CBOE volatility index gained 54.5%, reaching a peak of 28. Despite this volatile start, U.S. equities later rallied on signs of improving economic growth, a recovery in oil prices and confidence around stabilization of currency and growth outlook in China. The S&P 500 ended 2016 up 9.5% while the CBOE volatility index declined 22.9%. Equity indices outside the U.S. were mixed, with European and Asian stock indices largely flat on the year (MSCI Europe down 0.5% and MSCI Asia up 1.7%), with a notable exception in the U.K. as the FTSE 100 gained 14.4% on the year despite Brexit.

Currency prices also experienced significant volatility in 2016, with sharp swings in traditionally stable currencies like the U.S. dollar, Euro and British pound. Following Brexit, in late June, the British pound fell dramatically, ending the year down 16.3% against the U.S. dollar. The Euro also weakened against the U.S. dollar



post-Brexit, but rebounded later in the year, ending down 3.2%. In November, the U.S. presidential election results advanced hopes for pro-growth policies and economic expansion, supporting a further strengthening of the U.S. dollar index, which surged to its highest level since 2003.

Turmoil in the oil markets continued in 2016, with prices falling during the first six weeks of the year, with the West Texas Intermediate Crude reaching a low of \$26 per barrel in February, and then more than doubling to end the year at \$53 per barrel. Price declines, led by resilient production in the U.S. and globally, abundant existing supply and reduced demand from key emerging economies such as China and India, reversed during the first quarter due to spending and production cuts. In November, OPEC nations agreed to cut production in 2017, the first such cut in eight years, further buoying oil prices. Prices for other commodities also increased in 2016, with the Bloomberg commodity index rising 11.4% in 2016, marking its first gain in six years.

Despite the tumultuous start to the year, improving global economic prospects in the U.S. led to rising inflation expectations, higher bond yields and tightening corporate credit spreads during the second half of 2016. In November, the U.S. Federal Reserve, citing higher home prices, low unemployment and improving confidence, raised its targeted range by 25 basis points to 0.75%. Most bond sectors posted positive returns for the year, with the Bloomberg Barclays U.S. Aggregate Index up 2.6%, investment grade corporates up 6.1%, and high yield corporates up 17.1%. High yield spreads tightened 281 basis points and issuance, already down significantly in 2015, fell another 9.6% during the year. Global equity capital market activity for both IPOs and follow-ons fell 25% year over year to a four-year low, again driven by declining U.S. and European volumes in the midst of heightened market volatility.

China remained at the forefront as slowing growth and a devaluation of the yuan impacted global equities early in the year. The Shanghai composite fell 22.6% in January, before recovering modestly throughout the year, ending down 12.3%. The People's Bank of China enacted a number of measures intended to stimulate the economy, including infrastructure spending, easing of property restrictions and auto incentives. The yuan fell 6.7% against the U.S. dollar, the biggest annual decline since 1994. For the full year, China's GDP grew 6.7%, its slowest pace in 26 years, but within the government's stated target range of 6.5% to 7%. Continued policy stimulus is expected into 2017 but capital outflows, high levels of debt, geopolitical uncertainties and the potential for continued and additional restrictions on capital outflow from China remain risks to the outlook.

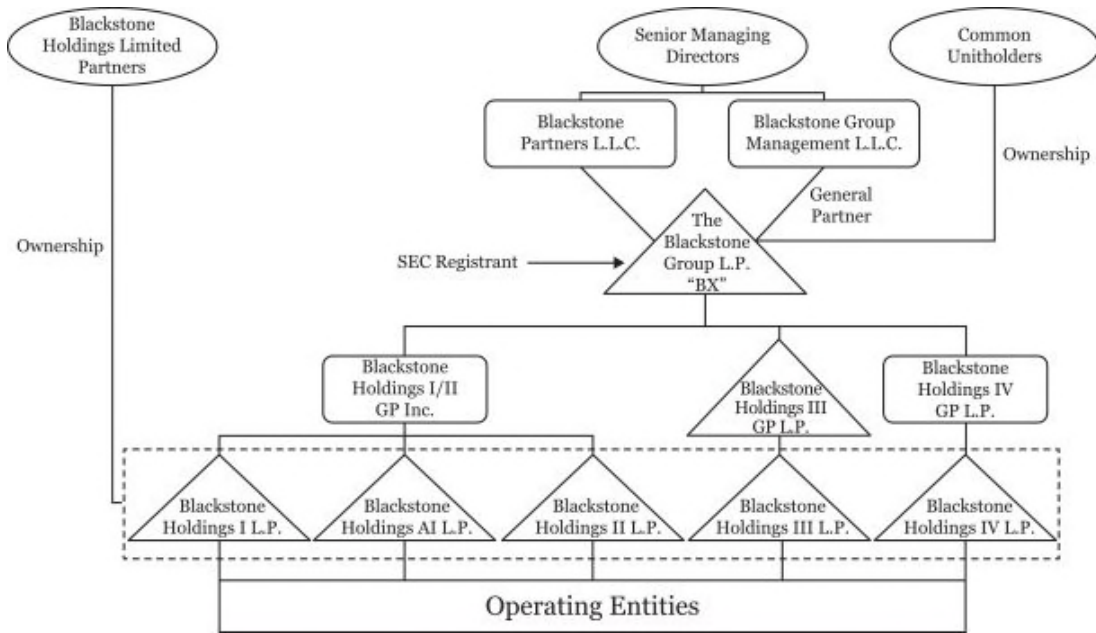
### **Significant Transactions**

On August 31, 2016, Blackstone amended and restated its revolving credit facility to, among other things, increase the amount of the revolving credit facility from \$1.1 billion to \$1.5 billion and to extend the maturity date of the revolving credit facility from May 29, 2019 to August 31, 2021.

On October 5, 2016, Blackstone issued €600 million in aggregate principal amount of 1.000% senior notes maturing on October 5, 2026.

## Organizational Structure

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.



## Key Financial Measures and Indicators

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

### Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to "Part I. Item 1. Business — Incentive Arrangements / Fee Structure" and "— Critical Accounting Policies — Revenue Recognition" for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of

management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of transaction-based fee arrangements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“carry funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone carry funds if the Blackstone carry funds were to be liquidated based on the current fair value of the underlying funds’ investments as of the reporting date. The actual clawback liability, however, generally does not become realized

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until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately, and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

*Other Operating Expenses* — Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses* — The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

### **Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in

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consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

***Income Taxes***

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

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Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) a determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, members of Congress and the administration of former President Obama have made a number of legislative proposals to change the taxation of carried interest that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or "ISPI," as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive carried interest would likely have been classified as ISPIs for purposes of this legislation. During his presidential campaign, President Trump expressed his support for legislation ending treatment of carried interest as capital gain. Whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted is unclear.

Some of the above legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

Both President Trump and the Republican members of the U.S. House of Representatives have publicly stated that one of their top legislative priorities is significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. Proposals by members of Congress have included, among other things: (a) reducing corporate tax rates (the highest dropping from 35% to 20%) and reducing individual tax rates (the highest dropping from 39.6% to 33%), (b) changing to a destination-based tax system, which would tax goods where they are consumed rather than produced, by providing for certain border adjustments which would effectively exempt exports from, and subject imports to, U.S. tax, (c) changing to a territorial tax system by exempting dividends from foreign subsidiaries from U.S. tax, but subjecting unrepatriated earnings of foreign subsidiaries to U.S. tax, paid over the course of eight years (8.75% on cash and cash equivalent and 3.5% otherwise), (d) allowing deductions for interest expense only against interest income, with any nondeductible net interest expense being carried forward indefinitely, (e) permitting current deductions for investment in tangible and intangible property (excluding land), (f) eliminating certain "special interest" deductions and credits, (g) taxing the active business income of pass-through entities at a maximum rate, such as 25%, (h) repealing the 3.8% net investment income tax and corporate and individual alternative minimum taxes and (i) extending the carryforward of net operating losses. While President Trump has expressed support for a number of these proposals, he has also set forth ideas for tax reform that differ in key ways. Both the timing and the details of any such tax reform are unclear. The impact of any potential tax reform on us, our portfolio companies and our investors is uncertain and could be adverse. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has considered legislation, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. Whether or when similar legislation will be enacted is unclear. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from carried interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35% (although Congress is considering proposals to lower that rate), and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from carried interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

Meaningfully quantifying the potential impact on Blackstone of this potential future legislation or any similar legislation is not possible at this time. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ significantly and could be material. In addition, even if these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

Congress, the OECD and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions, interest deductibility and eligibility for the benefits of double tax treaties. A number of European jurisdictions have enacted taxes on financial transactions, and the European Commission has proposed legislation to harmonize these taxes under the so-called "enhanced cooperation procedure," which provides for adoption of EU-level legislation applicable to some but not all EU Member States. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

In addition, legislation enacted in 2015 significantly changed the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under the elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. If a partnership elects the alternative procedure for a given adjustment, the amount of taxes for which its partners would be liable would be increased by any applicable penalties and a special interest charge. There can be no assurance that we will be eligible to make such an election or that we will, in fact, make such an election for any given adjustment. If we do

not or are not able to make such an election, then (a) our then-current common unitholders, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had we elected the alternative procedure, and (b) a given common unitholder may indirectly bear taxes attributable to income allocable to other common unitholders or former common unitholders, including taxes (as well as interest and penalties) with respect to periods prior to such holder's ownership of common units. Amounts available for distribution to our common unitholders may be reduced as a result of our obligation to pay any taxes associated with an adjustment. Many issues with respect to, and the overall effect of, this legislation on us are uncertain, and common unitholders should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

### ***Economic Income***

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income ("ENI") represents EI adjusted to include current period taxes. Taxes represent the total tax provision calculated under GAAP adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data".)

### ***Fee Related Earnings***

Blackstone uses Fee Related Earnings ("FRE"), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation, (b) income earned from Blackstone's investments in the Blackstone Funds, and (c) net interest income (loss). Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, carried interest and incentive fee compensation) and (b) non-interest operating expenses. See "— Liquidity and Capital Resources — Sources and Uses of Liquidity" below for our discussion of FRE.

### ***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under GAAP (a "non-GAAP" measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See "— Liquidity and Capital Resources — Sources and Uses of Liquidity" below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Under the Tax Receivable Agreement.



**Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization**

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization (“Adjusted EBITDA”), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See “— Liquidity and Capital Resources — Sources and Uses of Liquidity” below for our calculation of Adjusted EBITDA.

**Summary Walkdown of GAAP to Non-GAAP Financial Metrics**

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see “— Liquidity and Capital Resources — Sources and Uses of Liquidity.”

(Dollars in Millions)	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>GAAP</b>	<b>Income Before Provision for Taxes</b>		
	<b>\$ 2,382</b>	<b>\$1,815</b>	<b>\$3,987</b>
	<ul style="list-style-type: none"> <li>+ Transaction-Related Charges</li> <li>+ Amortization of Intangibles</li> <li>- (Income) Associated with Non-Controlling Interests of Consolidating Entities</li> </ul>		
<b>Economic Income “EI”</b>	<b>= Economic Income</b>		
	<b>\$2,481</b>	<b>\$2,178</b>	<b>\$4,544</b>
	<ul style="list-style-type: none"> <li>- Performance Fee Adjustment</li> <li>- Investment (Income) Loss Adjustment</li> <li>+ Net Interest Loss</li> <li>+ Performance Fee Compensation and Benefit Adjustment</li> </ul>		
<b>Fee Related Earnings “FRE”</b>	<b>= Fee Related Earnings</b>		
	<b>\$1,003</b>	<b>\$936</b>	<b>\$1,003</b>
	<ul style="list-style-type: none"> <li>+ Net Realized Performance Fees</li> <li>+ Realized Investment Income</li> <li>- Net Interest (Loss)</li> <li>- Taxes and Related Payables Including Payable Under Tax Receivable Agreement</li> <li>+ Equity-Based Compensation</li> </ul>		
<b>Distributable Earnings “DE”</b>	<b>= Distributable Earnings</b>		
	<b>\$2,176</b>	<b>\$3,844</b>	<b>\$3,064</b>

### ***Operating Metrics***

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, plus for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of our funds of hedge funds, hedge funds, real estate debt carry funds (plus the capital that we are entitled to call from investors in those funds), open ended core+ real estate fund, our Hedge Fund Solutions registered investment companies, and our non-exchange traded REIT,
- (c) the invested capital, fair value or net asset value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs after the reinvestment period,
- (f) the gross or net amount of assets (including leverage where applicable) for our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds, hedge funds and funds structured like hedge funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management .* Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,

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- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, co-investments managed by us on which we receive fees, certain registered investment companies, and our non-exchange traded REIT,
- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, and
- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments may include certain Fee-Earning Assets Under Management on which we earn performance fees but not management fees.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management and fee-earning assets under management are not based on any definition of assets under management and fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

**Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2016. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “— Segment Analysis” below.

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
(Dollars in Thousands)							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$2,442,975	\$ 2,542,505	\$2,497,252	\$ (99,530)	-4%	\$ 45,253	2%
Performance Fees							
Realized							
Carried Interest	1,474,830	3,205,290	2,450,082	(1,730,460)	-54%	755,208	31%
Incentive Fees	170,537	193,238	249,005	(22,701)	-12%	(55,767)	-22%
Unrealized							
Carried Interest	481,304	(1,595,174)	1,704,924	2,076,478	N/M	(3,300,098)	N/M
Incentive Fees	49,660	(6,688)	(29,749)	56,348	N/M	23,061	-78%
Total Performance Fees	<u>2,176,331</u>	<u>1,796,666</u>	<u>4,374,262</u>	<u>379,665</u>	<u>21%</u>	<u>(2,577,596)</u>	<u>-59%</u>
Investment Income (Loss)							
Realized	278,737	555,171	523,735	(276,434)	-50%	31,436	6%
Unrealized	77,314	(350,529)	10,265	427,843	N/M	(360,794)	N/M
Total Investment Income	<u>356,051</u>	<u>204,642</u>	<u>534,000</u>	<u>151,409</u>	<u>74%</u>	<u>(329,358)</u>	<u>-62%</u>
Interest and Dividend Revenue	95,724	94,957	69,809	767	1%	25,148	36%
Other	54,753	7,782	9,405	46,971	604%	(1,623)	-17%
<b>Total Revenues</b>	<u>5,125,834</u>	<u>4,646,552</u>	<u>7,484,728</u>	<u>479,282</u>	<u>10%</u>	<u>(2,838,176)</u>	<u>-38%</u>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	1,335,408	1,726,191	1,868,868	(390,783)	-23%	(142,677)	-8%
Performance Fee Compensation							
Realized							
Carried Interest	455,954	793,801	815,643	(337,847)	-43%	(21,842)	-3%
Incentive Fees	78,096	85,945	110,099	(7,849)	-9%	(24,154)	-22%
Unrealized							
Carried Interest	312,838	(312,696)	379,037	625,534	N/M	(691,733)	N/M
Incentive Fees	21,134	(2,490)	(19,276)	23,624	N/M	16,786	-87%
Total Compensation and Benefits	<u>2,203,430</u>	<u>2,290,751</u>	<u>3,154,371</u>	<u>(87,321)</u>	<u>-4%</u>	<u>(863,620)</u>	<u>-27%</u>
General, Administrative and Other	520,309	576,103	549,463	(55,794)	-10%	26,640	5%
Interest Expense	152,654	144,522	121,524	8,132	6%	22,998	19%
Fund Expenses	52,181	79,499	30,498	(27,318)	-34%	49,001	161%
<b>Total Expenses</b>	<u>2,928,574</u>	<u>3,090,875</u>	<u>3,855,856</u>	<u>(162,301)</u>	<u>-5%</u>	<u>(764,981)</u>	<u>-20%</u>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	—	82,707	—	(82,707)	-100%	82,707	N/M
Net Gains from Fund Investment Activities	184,750	176,364	357,854	8,386	5%	(181,490)	-51%
<b>Total Other Income</b>	<u>184,750</u>	<u>259,071</u>	<u>357,854</u>	<u>(74,321)</u>	<u>-29%</u>	<u>(98,783)</u>	<u>-28%</u>
<b>Income Before Provision for Taxes</b>	<u>2,382,010</u>	<u>1,814,748</u>	<u>3,986,726</u>	<u>567,262</u>	<u>31%</u>	<u>(2,171,978)</u>	<u>-54%</u>
<b>Provision for Taxes</b>	<u>132,362</u>	<u>190,398</u>	<u>291,173</u>	<u>(58,036)</u>	<u>-30%</u>	<u>(100,775)</u>	<u>-35%</u>
<b>Net Income</b>	<u>2,249,648</u>	<u>1,624,350</u>	<u>3,695,553</u>	<u>625,298</u>	<u>38%</u>	<u>(2,071,203)</u>	<u>-56%</u>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	3,977	11,145	74,794	(7,168)	-64%	(63,649)	-85%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	246,152	219,900	335,070	26,252	12%	(115,170)	-34%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	960,284	683,516	1,701,100	276,768	40%	(1,017,584)	-60%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$1,039,235</u>	<u>\$ 709,789</u>	<u>\$1,584,589</u>	<u>\$ 329,446</u>	<u>46%</u>	<u>\$ (874,800)</u>	<u>-55%</u>

N/M Not meaningful.

*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Revenues*

Total Revenues were \$5.1 billion for the year ended December 31, 2016, an increase of \$479.3 million, or 10%, compared to \$4.6 billion for the year ended December 31, 2015. The increase was primarily attributable to increases in Performance Fees and Investment Income of \$379.7 million and \$151.4 million, respectively, partially offset by a decrease in Management and Advisory Fees, Net of \$99.5 million.

Performance Fees, which are determined on a fund by fund basis, were \$2.2 billion for the year ended December 31, 2016, an increase of \$379.7 million compared to \$1.8 billion for the year ended December 31, 2015. The increase in Performance Fees was primarily due to increases in our Credit and Real Estate segments of \$356.1 million and \$129.5 million, respectively. These increases were partially offset by a decrease in our Private Equity segment of \$87.0 million. Performance Fees increased in our Credit segment due to a significant rebound in energy investments as well as broad based appreciation of funds. The composite net returns of Blackstone's significant Credit segment funds for the year ended December 31, 2016 were 13.3% for Distressed Strategies and 16.7% for Performing Credit Strategies. The increase in Performance Fees in our Real Estate segment was primarily due to a year over year increase in the net appreciation of investment holdings in our real estate opportunistic funds, which appreciated 11.1%, compared to 9.7% in the prior period. Our core+ real estate funds, real estate debt drawdown and hedge funds appreciated 10.9%, 11.7% and 0.3%, respectively. The decrease in our Private Equity segment was principally due to lower appreciation in BCP V compared to 2015, partially offset by greater appreciation in our BCP VI and BCP IV funds.

Investment Income was \$356.1 million for the year ended December 31, 2016, an increase of \$151.4 million compared to \$204.6 million for the year ended December 31, 2015. The increase in Investment Income was primarily due to an increase in our Real Estate segment of \$117.9 million. The increase in our Real Estate segment was primarily due to the net appreciation of investments in BREP VI, in which the general partner has made a larger commitment than in other real estate funds.

Management and Advisory Fees, Net was \$2.4 billion for the year ended December 31, 2016, a decrease of \$99.5 million compared to \$2.5 billion for the year ended December 31, 2015. The decrease in Management and Advisory Fees, Net was primarily due to the spin-off of the operations of our financial advisory business, partially offset by increases in our Real Estate, Private Equity and Credit segments of \$130.9 million, \$48.5 million and \$18.5 million, respectively. The increase in our Real Estate segment was principally due to increased commitments in BREP VIII and an increase in invested capital in BPP, partially offset by realizations across the portfolio. The increase in our Private Equity segment was primarily due to the addition of Fee-Earning Assets Under Management across the segment. The increase in our Credit segment was primarily attributable to the growth in Fee-Earning Assets Under Management for our credit drawdown funds and our BDCs.

*Expenses*

Expenses were \$2.9 billion for the year ended December 31, 2016, a decrease of \$162.3 million compared to \$3.1 billion for the year ended December 31, 2015. The decrease was primarily attributable to decreases in Compensation, General, Administrative and Other, and Fund Expenses of \$390.8 million, \$55.8 million and \$27.3 million, respectively, partially offset by an increase in Performance Fee Compensation of \$303.5 million. The decrease in Compensation was due to lower equity-based compensation expense related to awards granted in connection with Blackstone's IPO which were fully vested and expensed as of June 30, 2015 as well as the departure of employees due to the October 1, 2015 spin-off of our financial advisory business. The decrease in General, Administrative and Other was primarily due to the spin-off of our financial advisory business and non-recurring costs incurred in 2015 related to the SEC settlement. The decrease in Fund Expenses was primarily attributable to our Credit segment as a result of a decrease in certain CLO-related expenses. Performance Fee Compensation is derived from Performance Fee Revenue. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Total Revenues were \$4.6 billion for the year ended December 31, 2015, a decrease of \$2.8 billion, or 38%, compared to \$7.5 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fees and Investment Income of \$2.6 billion and \$329.4 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$1.8 billion for the year ended December 31, 2015, a decrease of \$2.6 billion compared to \$4.4 billion for the year ended December 31, 2014. The decrease in Performance Fees was primarily due to decreases in our Private Equity, Real Estate, and Credit segments of \$1.2 billion, \$1.0 billion and \$270.4 million, respectively. The decrease in our Private Equity segment was principally due to lower net returns in our corporate private equity portfolio, despite overall solid net performance. Performance Fees in our Real Estate segment decreased due to a year over year decrease in the net appreciation of investments in our real estate opportunistic funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone's contributed real estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6%, offset by public portfolio depreciation of 8.6%, particularly in lodging. Performance Fees decreased in our Credit segment due to our energy investments, overall declines in the credit market, underperformance in certain event-driven assets and technical pressure caused by year end selling.

Investment Income was \$204.6 million for the year ended December 31, 2015, a decrease of \$329.4 million compared to \$534.0 million for the year ended December 31, 2014. The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$246.5 million and \$105.5 million, respectively. The decrease in our Real Estate segment was primarily due to a year over year net depreciation of investments in BREP VI, in which the general partner has made a larger commitment than in other real estate funds. The decrease in our Private Equity segment was driven by our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio and certain investment markdowns in energy.

*Expenses*

Expenses were \$3.1 billion for the year ended December 31, 2015, a decrease of \$765.0 million compared to \$3.9 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fee Compensation and Compensation of \$720.9 million and \$142.7 million, respectively, partially offset by increases of \$49.0 million and \$23.0 million in Fund Expenses and Interest Expense, respectively. Performance Fee Compensation is derived from Performance Fee Revenue. The decrease in Performance Fee Compensation was due to the decrease in Performance Fee Revenue. The decrease in Compensation was primarily due to lower equity-based compensation expense related to awards granted in connection with Blackstone's IPO, which were fully vested and expensed as of June 30, 2015 and an overall decrease in headcount driven by the October 1, 2015 spin-off of our financial advisory business. The decrease was partially offset by an increase in equity-based amortization charges due to the 2014 change in terms of Deferred Compensation Plan awards which require future service and are therefore expensed over the service period. The increase in General, Administrative and Other was primarily due to transactional charges associated with the spin-off, non-recurring costs related to the SEC settlement, occupancy increases and business development costs. Due to the spin-off, partially offsetting these increases was a reduction in expenses directly incurred by the financial advisory business. The \$23.0 million increase in interest expense was primarily related to Blackstone's issuance of senior notes in the second quarter of 2015. The increase in Fund Expenses primarily occurred in our Credit segment, where it was attributable to newly launched CLOs and an increase in other expenses.

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*Other Income*

*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

Other Income was \$184.8 million for the year ended December 31, 2016, a decrease of \$74.3 million compared to \$259.1 million for the year ended December 31, 2015. The decrease was primarily due to the absence of the Reversal of Tax Receivable Agreement Liability of \$82.7 million that was recognized during the year ended December 31, 2015 in connection with the spin-off of our financial advisory business in October 2015. The reversal occurred when we recalculated our liability under the tax receivable agreements as a result of the spin-off of our financial advisory business.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

Other Income was \$259.1 million for the year ended December 31, 2015, a decrease of \$98.8 million compared to \$357.9 million for the year ended December 31, 2014. The decrease was due to a decrease in Net Gains from Fund Investment Activities of \$181.5 million, partially offset by an increase due to a Reversal of Tax Receivable Agreement Liability of \$82.7 million in connection with the spin-off of our financial advisory business in October 2015. The reversal occurred when we recalculated our liability under the tax receivable agreements as a result of the spin-off of our financial advisory business.

Other Income — Net Gains from Fund Investment Activities was \$176.4 million for the year ended December 31, 2015, a decrease of \$181.5 million compared to \$357.9 million for the year ended December 31, 2014. This decrease was primarily comprised of decreases in our Real Estate, Hedge Fund Solutions and Private Equity segments of \$148.3 million, \$73.8 million and \$62.0 million, respectively, partially offset by an increase of \$102.7 million in our Credit segment. The Real Estate decrease was primarily the result of the deconsolidation of certain funds as well as a year over year net decreases in the appreciation of investments across our funds. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance and the deconsolidation of a number of funds. The decrease in our Private Equity segment was primarily due to the lower unrealized gains compared to the same period in 2014. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2015, there was a Reversal of Tax Receivable Agreement Liability resulting in an increase of \$82.7 million.

*Provision for Taxes*

The following table summarizes Blackstone's tax position:

	Year Ended December 31,		
	2016	2015	2014
Income Before Provision for Taxes	\$2,382,010	\$1,814,748	\$3,986,726
Provision for Taxes	\$ 132,362	\$ 190,398	\$ 291,173
Effective Income Tax Rate	5.6%	10.5%	7.3%

The following table reconciles the effective income tax rate to the U.S. federal statutory tax rate:

	Year Ended December 31,			2016 vs. 2015	2015 vs. 2014
	2016	2015	2014		
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%	—	—
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-28.6%	-26.3%	-29.2%	2.3%	2.9%
State and Local Income Taxes	1.3%	1.8%	1.5%	0.5%	0.3%
Equity-Based Compensation	-0.2%	1.8%	1.1%	2.0%	0.7%
Other	-1.9%	-1.8%	-1.1%	0.1%	0.7%
Effective Income Tax Rate	<u>5.6%</u>	<u>10.5%</u>	<u>7.3%</u>	<u>4.9%</u>	<u>3.2%</u>

- (a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.

Blackstone's Provision for Taxes for the years ended December 31, 2016, 2015 and 2014 was \$132.4 million, \$190.4 million and \$291.2 million, respectively. This resulted in an effective tax rate of 5.6%, 10.5% and 7.3%, respectively, based on our Income Before Provision for Taxes of \$2.4 billion, \$1.8 billion and \$4.0 billion, respectively.

The difference in Blackstone's effective tax rate for the year ended December 31, 2016 compared to the year ended December 31, 2015 resulted primarily from two items. First, the Income Before Provision for Taxes that was not taxable to the Partnership or its subsidiaries (and therefore was passed through to common unitholders and non-controlling interest holders) was \$1.9 billion in 2016 (of \$2.4 billion of 2016 total pretax income), compared to \$1.4 billion in 2015 (of \$1.8 billion of 2015 total pretax income). Second, in 2016, the tax deductible equity-based compensation expense exceeded the book equity-based compensation expense, while the reverse occurred in 2014.

The difference in Blackstone's effective tax rate for the year ended December 31, 2015 compared to the year ended December 31, 2014 period resulted primarily from one item: the Income Before Provision for Taxes that was not taxable to the Partnership or its subsidiaries (and therefore was passed through to common unitholders and non-controlling interest holders) was \$1.4 billion in 2015 (of \$1.8 billion of 2015 total pretax income), compared to \$3.3 billion in 2014 (of \$4.0 billion of total pretax income).

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 14. "Income Taxes" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

#### *Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income — Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the years ended December 31, 2016, 2015 and 2014, the Net Income Before Taxes allocated to Blackstone Holdings was 46.1%, 47.0% and 47.9%, respectively. The decreases of 0.9% and 0.9% were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

The Other Income — Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

#### *Operating Metrics*

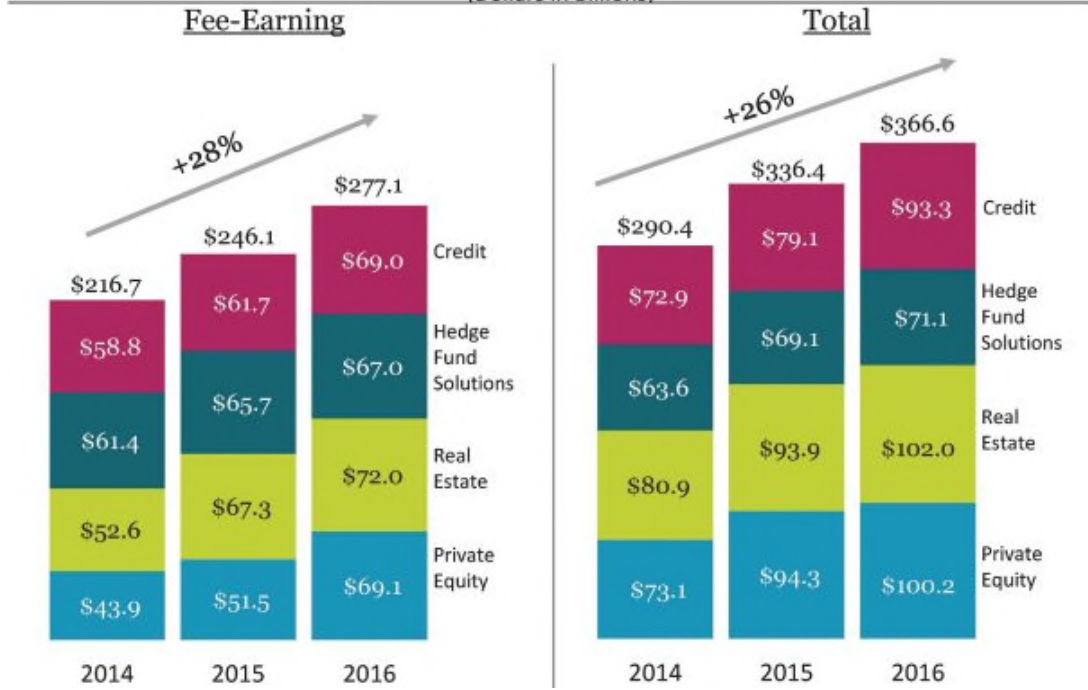
The following graphs and tables summarize the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the years ended December 31, 2016, 2015 and 2014. For a description of how Assets Under Management and Fee-Earning Assets Under



Management are determined, please see “— Key Financial Measures and Indicators — Operating Metrics — Assets Under Management and Fee-Earning Assets Under Management.”

## Assets Under Management by Segment

(Dollars in Billions)



Note: Totals may not add due to rounding.

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	Year Ended December 31,									
	2016					2015				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
Fee-Earning Assets Under Management										
Balance, Beginning of Period	\$51,451,196	\$67,345,357	\$ 65,665,439	\$61,684,380	\$246,146,372	\$43,890,167	\$52,563,068	\$ 61,417,558	\$58,821,006	\$216,691,799
Inflows, including Commitments (a)	28,917,902	14,230,164	10,132,407	15,045,180	68,325,653	13,882,257	27,698,203	9,667,274	17,310,414	68,558,148
Outflows, including Distributions (b)	(3,154,420)	(2,180,183)	(9,744,077)	(4,756,725)	(19,835,405)	(1,395,020)	(4,165,520)	(5,430,094)	(5,711,573)	(16,702,207)
Realizations (c)	<u>(8,193,322)</u>	<u>(8,019,202)</u>	<u>(416,583)</u>	<u>(5,818,135)</u>	<u>(22,447,242)</u>	<u>(5,106,650)</u>	<u>(8,513,771)</u>	<u>(516,619)</u>	<u>(6,318,060)</u>	<u>(20,455,100)</u>
Net Inflows (Outflows)	17,570,160	4,030,779	(28,253)	4,470,320	26,043,006	7,380,587	15,018,912	3,720,561	5,280,781	31,400,841
Market Appreciation (Depreciation) (d)										
(g)	92,053	653,918	1,350,367	2,806,956	4,903,294	180,442	(236,623)	527,320	(2,417,407)	(1,946,268)
Balance, End of Period (e)	<u>\$69,113,409</u>	<u>\$72,030,054</u>	<u>\$ 66,987,553</u>	<u>\$68,961,656</u>	<u>\$277,092,672</u>	<u>\$51,451,196</u>	<u>\$67,345,357</u>	<u>\$ 65,665,439</u>	<u>\$61,684,380</u>	<u>\$246,146,372</u>
Increase	\$17,662,213	\$ 4,684,697	\$ 1,322,114	\$ 7,277,276	\$ 30,946,300	\$ 7,561,029	\$14,782,289	\$ 4,247,881	\$ 2,863,374	\$ 29,454,573
Increase	34%	7%	2%	12%	13%	17%	28%	7%	5%	14%
Annualized Base Management Fee Rate										
(f)	0.93%	1.09%	0.78%	0.79%	0.90%	1.12%	1.19%	0.79%	0.82%	0.97%

	Year Ended December 31,				
	2014				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)				
Fee-Earning Assets Under Management					
Balance, Beginning of Period	\$42,600,515	\$50,792,803	\$ 52,865,837	\$51,722,584	\$197,981,739
Inflows, including Commitments (a)	6,757,450	11,536,435	12,021,209	19,845,686	50,160,780
Outflows, including Distributions (b)	(1,124,355)	(295,067)	(5,362,968)	(3,458,712)	(10,241,102)
Realizations (c)	<u>(4,733,564)</u>	<u>(8,719,534)</u>	<u>(312,486)</u>	<u>(7,897,115)</u>	<u>(21,662,699)</u>
Net Inflows	899,531	2,521,834	6,345,755	8,489,859	18,256,979
Market Appreciation (Depreciation) (d)					
(g)	390,121	(751,569)	2,205,966	(1,391,437)	453,081
Balance, End of Period (e)	<u>\$43,890,167</u>	<u>\$52,563,068</u>	<u>\$ 61,417,558</u>	<u>\$58,821,006</u>	<u>\$216,691,799</u>
Increase	\$ 1,289,652	\$ 1,770,265	\$ 8,551,721	\$ 7,098,422	\$ 18,710,060
Increase	3%	3%	16%	14%	9%
Annualized Base Management Fee Rate (f)	0.96%	1.19%	0.81%	0.83%	0.94%

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	Year Ended December 31,									
	2016					2015				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
<b>Total Assets Under Management</b>										
Balance, Beginning of Period	\$ 94,280,074	\$ 93,917,824	\$ 69,105,425	\$ 79,081,252	\$ 336,384,575	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069
Inflows, including Commitments (a)	16,867,638	19,047,473	10,782,839	22,962,825	69,660,775	30,034,911	29,473,697	11,040,950	23,035,118	93,584,676
Outflows, including Distributions (b)	(1,544,928)	(500,727)	(9,871,709)	(6,514,437)	(18,431,801)	(406,955)	(342,233)	(5,559,483)	(6,372,790)	(12,681,461)
Realizations (c)	(14,221,866)	(17,926,238)	(436,973)	(6,673,833)	(39,258,910)	(13,493,163)	(21,016,540)	(554,584)	(7,605,824)	(42,670,111)
Net Inflows	1,100,844	620,508	474,157	9,774,555	11,970,064	16,134,793	8,114,924	4,926,883	9,056,504	38,233,104
Market Appreciation (Depreciation) (d)(h)	4,812,032	7,425,320	1,540,136	4,421,338	18,198,826	5,072,029	4,939,713	592,872	(2,834,212)	7,770,402
Balance, End of Period (e)	\$ 100,192,950	\$ 101,963,652	\$ 71,119,718	\$ 93,277,145	\$ 366,553,465	\$ 94,280,074	\$ 93,917,824	\$ 69,105,425	\$ 79,081,252	\$ 336,384,575
Increase	\$ 5,912,876	\$ 8,045,828	\$ 2,014,293	\$ 14,195,893	\$ 30,168,890	\$ 21,206,822	\$ 13,054,637	\$ 5,519,755	\$ 6,222,292	\$ 46,003,506
Increase	6%	9%	3%	18%	9%	29%	16%	9%	9%	16%

	Year Ended December 31,				
	2014				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)				
<b>Total Assets Under Management</b>					
Balance, Beginning of Period	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Inflows, including Commitments (a)	13,677,363	11,080,384	11,428,764	21,072,694	57,259,205
Outflows, including Distributions (b)	(1,624,064)	(896,394)	(5,430,780)	(3,763,200)	(11,714,438)
Realizations (c)	(15,379,066)	(20,389,808)	(416,882)	(9,301,444)	(45,487,200)
Net Inflows (Outflows)	(3,325,767)	(10,205,818)	5,581,102	8,008,050	57,567
Market Appreciation (Depreciation) (d)(h)	10,723,988	11,658,217	2,347,105	(163,438)	24,565,872
Balance, End of Period (e)	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069
Increase	\$ 7,398,221	\$ 1,452,399	\$ 7,928,207	\$ 7,844,612	\$ 24,623,439
Increase	11%	2%	14%	12%	9%

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments).
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.

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- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2016 included \$21.3 million and \$44.5 million, respectively, from a joint venture in which we are the minority interest holder.
- (f) Represents the annualized current quarter's Base Management Fee divided by period end Fee-Earning Assets Under Management.
- (g) For the year ended December 31, 2016, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was \$1.0 million, \$(463.8) million, \$(335.8) million and \$(798.5) million for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2015, such impact was \$(17.0) million, \$(642.4) million, \$(999.2) million and \$(1.7) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(11.8) million, \$(957.4) million, \$(1.3) billion and \$(2.3) billion for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (h) For the year ended December 31, 2016, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was \$86.5 million, \$(1.4) billion, \$(490.4) million and \$(1.8) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2015, such impact was \$(508.1) million, \$(1.9) billion, \$(1.1) billion and \$(3.5) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(357.1) million, \$(2.0) billion, \$(1.5) billion and \$(3.8) billion for the Private Equity, Real Estate, Credit and Total segments, respectively.

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$277.1 billion at December 31, 2016, an increase of \$30.9 billion, or 13%, compared to \$246.1 billion at December 31, 2015. The net increase was due to:

- Inflows of \$68.3 billion related to:
  - \$28.9 billion in our Private Equity segment primarily due to the commencement of the investment periods of BCP VII and SP VII, which generated inflows of \$17.5 billion and \$7.3 billion, respectively (these amounts are reflected in Total Assets Under Management at each closing of each respective fund),
  - \$15.0 billion in our Credit segment driven by \$4.8 billion raised due to new CLO launches, \$3.3 billion raised from certain other long only strategies, \$2.2 billion of capital raised for our BDCs and \$1.8 billion raised or invested in our hedge fund strategies,
  - \$14.2 billion in our Real Estate segment primarily related to \$7.2 billion committed in BREP Europe V, \$3.2 billion invested across BREDS, \$2.5 billion invested in BPP and \$755.0 million raised for BREP co-investment, and
  - \$10.1 billion in our Hedge Fund Solutions segment mainly related to growth in individual investor and specialized solutions of \$4.5 billion, customized solutions of \$3.1 billion and commingled products of \$2.5 billion.
- Market appreciation of \$4.9 billion due to:
  - \$2.8 billion appreciation in our Credit segment due to \$2.1 billion in our BDCs, \$798.0 million in our hedge fund strategies and \$659.6 million from certain long only strategies, partially offset by \$335.8 million of foreign exchange depreciation,
  - \$1.4 billion appreciation in our Hedge Fund Solutions segment due to returns from BAAM's Principal Solutions Composite of 3.5% gross (2.7% net), and
  - \$653.9 million in our Real Estate segment primarily due to appreciation of \$941.3 million and \$248.0 million from BPP and BXMT, respectively, partially offset by \$463.8 million of foreign exchange depreciation.

Offsetting these increases were:

- Realizations of \$22.4 billion primarily driven by:
  - \$8.2 billion in our Private Equity segment primarily due to \$3.8 billion of realizations from BCP V, \$1.7 billion from Strategic Partners, \$1.0 billion from BCP VI and \$800.9 million from Tactical Opportunities,
  - \$8.0 billion in our Real Estate segment primarily due to \$3.5 billion of realizations across BREP global and European funds (Fee-Earning Assets Under Management only includes the invested capital from funds outside of their investment period while Total Assets Under Management realizations include total proceeds), \$2.6 billion of realizations from BREDS and \$1.6 billion of realizations from BREP co-investment, and
  - \$5.8 billion in our Credit segment primarily due to \$2.8 billion of capital returned to CLO investors from CLOs that are post their re-investment periods, \$1.6 billion of capital returned to investors in drawdown funds and \$937.1 million in dividends from BDCs.
- Outflows of \$19.8 billion primarily attributable to:
  - \$9.7 billion in our Hedge Fund Solutions segment, reflecting investors' liquidity needs and certain strategic shifts in their programs, with outflows of \$4.7 billion from individual investor and specialized solutions, \$2.7 billion from customized solutions and \$2.4 billion from commingled products,
  - \$4.8 billion in our Credit segment primarily attributable to \$1.8 billion from BDCs, \$1.6 billion from certain long only strategies and \$1.4 billion from hedge fund strategies,
  - \$3.2 billion in our Private Equity segment primarily due to the end of the investment periods of BCP VI and SP VI, driving outflows of \$1.8 billion and \$561.4 million, respectively, and
  - \$2.2 billion in our Real Estate segment primarily due to \$2.0 billion of uninvested reserves at the close of BREP Europe IV's investment period.

BAAM had net inflows of \$824.9 million from January 1 through February 1, 2017.

Fee-Earning Assets Under Management were \$246.1 billion at December 31, 2015, an increase of \$29.5 billion, or 14%, compared to \$216.7 billion at December 31, 2014. The net increase was due to:

- Inflows of \$68.6 billion related to:
  - \$27.7 billion in our Real Estate segment primarily related to \$15.6 billion raised for BREP VIII, \$7.2 billion raised/invested for BPP, \$1.5 billion invested for BREP VII post its investment period, \$1.1 billion invested for BREDS II and \$1.0 billion raised for BXMT,
  - \$17.3 billion in our Credit segment driven by \$4.8 billion raised in CLO launches, \$4.8 billion raised in our BDCs, \$3.6 billion raised in our drawdown funds and \$2.0 billion raised in our Hedge Fund Strategies,
  - \$13.9 billion in our Private Equity segment primarily due to \$5.0 billion raised in Tactical Opportunities, \$4.5 billion raised for Blackstone Energy Partners II, \$1.0 billion raised from Strategic Partners and \$850.3 million of inflows from BTAS, and
  - \$9.7 billion in our Hedge Fund Solutions segment mainly related to growth in its customized, commingled, and individual investor solutions products, and additional closings on the general partner interests vehicle.

Offsetting these increases were:

- Realizations of \$20.5 billion primarily driven by:
  - \$8.5 billion in our Real Estate segment primarily due to realizations of \$4.4 billion in global and European real estate opportunistic funds, \$2.6 billion in BREDS and \$769.2 million in BREP co investment,
  - \$6.3 billion in our Credit segment primarily due to \$3.8 billion capital returned to CLO investors from CLOs that are post their re-investment periods, \$1.4 billion capital returned to investors in drawdown funds and \$776.3 million in dividends from BDCs, and
  - \$5.1 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from BCP V and our Strategic Partners fund of funds.
- Outflows of \$16.7 billion primarily attributable to:
  - \$5.7 billion in our Credit segment, which includes \$3.6 billion of redemptions due to investors' general liquidity needs as well as their paring back in credit investments,
  - \$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners and certain strategic shifts in their programs,
  - \$4.2 billion in our Real Estate segment primarily due to \$4.0 billion of uninvested reserves at the close of BREP VII's investment period, and
  - \$1.4 billion in our Private Equity segment primarily from the end of the investment periods for BEP I and Tactical Opportunities' initial separately managed accounts, as well as our outflows in our Strategic Partners fund of funds.
- Market depreciation of \$1.9 billion principally due to depreciation of \$2.4 billion in our Credit segment, partially offset by returns from the BAAM Principal Solutions ("BPS") Composite funds in our Hedge Fund Solutions segment. The \$2.4 billion of depreciation in our Credit segment, which includes \$999.2 million of foreign exchange depreciation, is primarily driven by \$1.3 billion in market depreciation from our U.S. and Europe CLOs, \$613.4 million in market depreciation from our hedge fund strategies and \$518.7 million in market depreciation from our BDCs.

#### *Total Assets Under Management*

Total Assets Under Management were \$366.6 billion at December 31, 2016, an increase of \$30.2 billion, or 9%, compared to \$336.4 billion at December 31, 2015. The net increase was due to:

- Inflows of \$69.7 billion primarily related to:
  - \$23.0 billion in our Credit segment primarily due to \$10.2 billion raised from mezzanine strategies (the majority of which will become Fee-Earning Assets Under Management when it is invested), \$4.8 billion raised from CLO launches, \$3.4 billion raised in certain other long only strategies, \$2.2 billion raised for BDCs and \$2.0 billion raised in our hedge fund strategies,
  - \$19.0 billion in our Real Estate segment attributable to \$7.4 billion raised for BREP Europe V, \$3.5 billion raised in BREDS III, \$2.7 billion raised in core+ real estate funds and \$879.1 million in BREP co-investment,
  - \$16.9 billion in our Private Equity segment primarily related to \$8.3 billion raised for Strategic Partners, \$3.9 billion raised for core private equity and \$2.6 billion raised for Tactical Opportunities, (capital raised is included in Fee-Earning Assets Under Management at the investment period commencement of each fund or at such time indicated in each fund's limited partnership agreement), and
  - \$10.8 billion in our Hedge Fund Solutions segment primarily driven by continued platform diversification and growth in customized solutions and individual investor solutions.

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- Market appreciation of \$18.2 billion due to:
  - \$7.4 billion appreciation in our Real Estate segment due to a carrying value increase in our opportunistic and core+ real estate funds of 11.1% and 10.9%, respectively, partially offset by \$1.4 billion of foreign exchange depreciation,
  - \$4.8 billion appreciation in our Private Equity segment primarily due to strong fund performance, with an 8.8% overall increase in carrying value, including 10.7% for our Corporate Private Equity funds and 10.9% in Tactical Opportunities,
  - \$4.4 billion appreciation in our Credit segment due to \$2.1 billion in BDCs, \$1.1 billion in drawdown funds and \$969.6 million in our hedge fund strategies, partially offset by \$490.4 million of foreign exchange depreciation, and
  - \$1.5 billion appreciation in our Hedge Fund Solutions segment primarily due to reasons noted above in Fee-Earning Assets Under Management.

Offsetting these increases were:

- Realizations of \$39.3 billion driven by:
  - \$17.9 billion in our Real Estate segment due to realizations of \$12.7 billion across BREP global, European and Asia funds, \$2.9 billion within BREP co-investment and \$1.9 billion within BREDS,
  - \$14.2 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly \$5.3 billion from BCP V fund, \$2.1 billion from BCP co-investment, \$2.1 billion from BCP VI, \$1.9 billion from Strategic Partners funds and \$1.3 billion from Tactical Opportunities, and
  - \$6.7 billion in our Credit segment due to \$2.9 billion of realizations from returns to CLO investors, \$2.5 billion of realizations from our drawdown funds and \$937.1 million from our BDCs.
- Outflows of \$18.4 billion primarily attributable to:
  - \$9.9 billion in our Hedge Fund Solutions segment primarily due to the same reasons in Fee-Earning Assets Under Management above,
  - \$6.5 billion in our Credit segment primarily due \$1.8 billion from BDCs, \$1.7 billion from certain long only strategies, \$1.5 billion from hedge fund strategies and \$1.2 billion from our mezzanine funds, and
  - \$1.5 billion in our Private Equity segment which includes \$804.6 million from Strategic Partners primarily due to expiration of unused commitments.

Total Assets Under Management were \$336.4 billion at December 31, 2015, an increase of \$46.0 billion, or 16%, compared to \$290.4 billion at December 31, 2014. The net increase was due to:

- Inflows of \$93.6 billion primarily related to:
  - \$30.0 billion in our Private Equity segment primarily related to \$18.0 billion raised for the seventh private equity fund (the corresponding Fee-Earning Assets Under Management Inflow will occur when the investment period for this fund commences), \$7.0 billion raised for Tactical Opportunities, \$2.2 billion raised from Strategic Partners and \$714.2 million of inflows from BTAS,
  - \$29.5 billion in our Real Estate segment attributable to \$16.0 billion raised for BREP VIII, \$6.9 billion raised for BPP, \$1.3 billion raised during the initial closing for the third real estate debt strategies fund, \$1.0 billion raised for BXMT, and \$740.3 million raised for BREP co-investment,
  - \$23.0 billion in our Credit segment primarily due to \$5.0 billion raised from CLO launches, \$4.8 billion raised for BDCs, \$3.9 billion raised in our energy focused products, \$3.6 billion raised in

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- European senior debt strategies, \$2.5 billion raised in certain other long only strategies and \$2.0 billion raised in hedge fund strategies, and
- \$11.0 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management.
- Market appreciation of \$7.8 billion due to:
  - \$5.1 billion appreciation in our Private Equity segment driven by significant returns in funds across the segment,
  - \$4.9 billion net appreciation in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%, and by \$1.9 billion of foreign exchange depreciation, and
  - \$2.8 billion depreciation in our Credit segment due to reasons noted above in Fee-Earning Asset Under Management, including \$1.1 billion attributable to foreign currency depreciation.

Offsetting these increases were:

- Realizations of \$42.7 billion driven by:
  - \$21.0 billion in our Real Estate segment due to realizations across the segment with 78% of realizations generated from the BREP Global and European opportunistic platform, including co-investment,
  - \$13.5 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund and Strategic Partners fund of funds, and
  - \$7.6 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds.
- Outflows of \$12.7 billion primarily attributable to:
  - \$6.4 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management, and
  - \$5.6 billion in our Hedge Fund Solutions segment due to reasons noted above in Fee-Earning Assets Under Management.

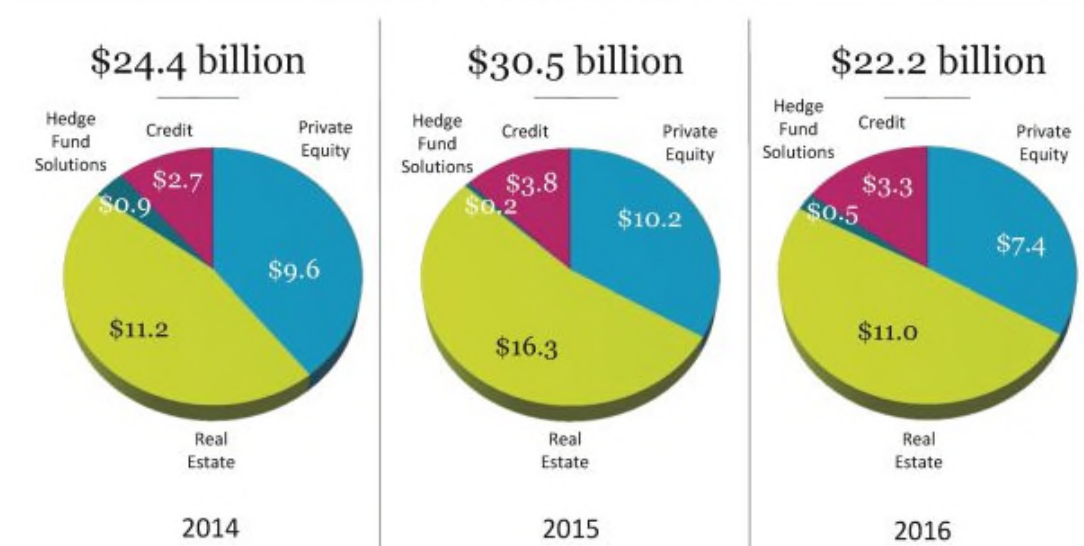


*Limited Partner Capital Invested*

The following presents the limited partner capital invested during the respective periods:

### Limited Partner Capital Invested

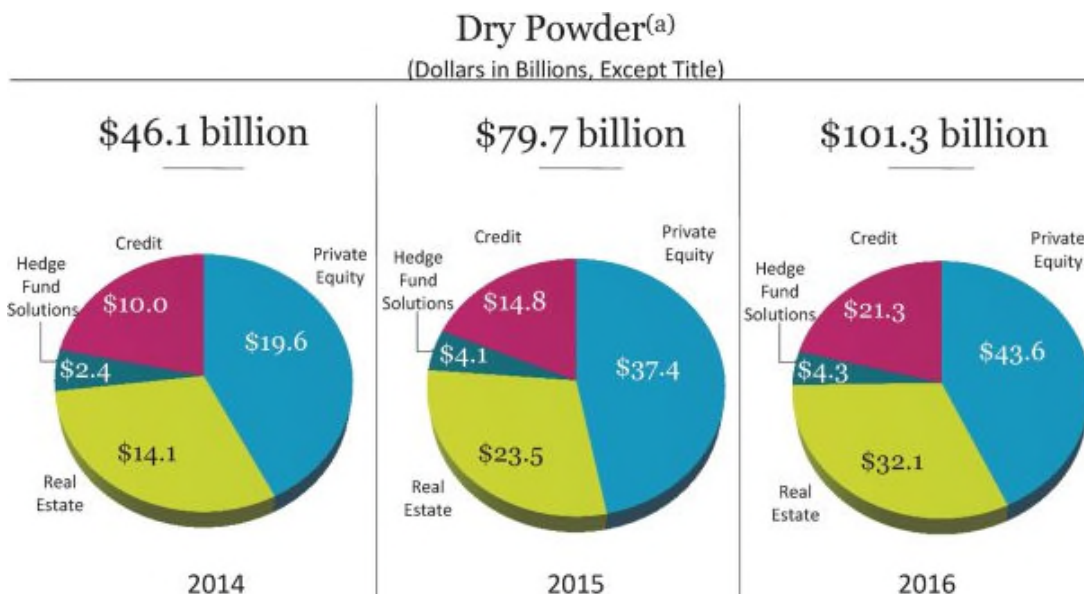
(Dollars in Billions, Except Title)



Note: Totals in graph may not add due to rounding.

Limited Partner Capital Invested	Year Ended December 31,		
	2014	2015	2016
Private Equity	\$ 9,623,273	\$ 10,219,178	\$ 7,443,607
Real Estate	11,235,142	16,259,362	10,969,746
Hedge Fund Solutions	854,128	243,241	540,343
Credit	2,656,958	3,783,265	3,254,849
Total	<u>\$ 24,369,501</u>	<u>\$ 30,505,046</u>	<u>\$ 22,208,545</u>

The following presents the committed undrawn capital available for investment (“dry powder”) for the respective periods:



Note: Totals may not add due to rounding. Amounts are as of December 31 of each year.

(a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.

	Year Ended December 31,		
	2014	2015	2016
<b>Dry Powder Available for Investment</b>			
Private Equity	\$ 19,605,359	\$ 37,387,766	\$ 43,621,447
Real Estate	14,139,503	23,464,151	32,134,990
Hedge Fund Solutions	2,397,158	4,066,965	4,309,901
Credit	9,999,838	14,780,351	21,276,719
<b>Total</b>	<b>\$ 46,141,858</b>	<b>\$ 79,699,233</b>	<b>\$ 101,343,057</b>

[Table of Contents](#)*Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2016 and 2015. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 18. “Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing. The net accrued performance fee as of each reporting date is principally unrealized carried interest and incentive fees which, if realized, can be a significant component of Distributable Earnings.

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 186	\$ 144
BCP V Carried Interest	323	288
BCP VI Carried Interest	548	359
BEP I Carried Interest	71	48
BEP II Carried Interest	2	—
Tactical Opportunities Carried Interest	83	52
BTAS Carried Interest	17	3
Strategic Partners Carried Interest	34	36
Other Carried Interest	4	1
Total Private Equity (a)	<u>1,268</u>	<u>931</u>
<b>Real Estate</b>		
BREP IV Carried Interest	8	20
BREP V Carried Interest	300	497
BREP VI Carried Interest	510	628
BREP VII Carried Interest	504	608
BREP VIII Carried Interest	143	7
BREP Europe III Carried Interest	140	186
BREP Europe IV Carried Interest	184	121
BREP Asia Carried Interest	79	54
BPP Carried Interest	57	28
BPP Incentive Fees	34	12
BREDS Carried Interest	16	12
BREDS Incentive Fees	4	6
Asia Platform Incentive Fees	7	7
Total Real Estate (a)	<u>1,986</u>	<u>2,186</u>
<b>Hedge Fund Solutions</b>		
Incentive Fees	24	38
Total Hedge Fund Solutions	<u>24</u>	<u>38</u>
<b>Credit</b>		
Carried Interest	168	77
Incentive Fees	24	19
Total Credit	<u>192</u>	<u>96</u>
<b>Total Blackstone</b>		
Carried Interest	3,377	3,169
Incentive Fees	93	82
Net Accrued Performance Fees	<u>\$3,470</u>	<u>\$3,251</u>

(a) Private Equity and Real Estate include Co-Investments.

*Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:

**Performance Fee Eligible AUM<sup>(a)</sup>**

(Dollars in Billions)



Note: Totals may not add due to rounding. Amounts are as of December 31.

(a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.

(b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

*Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2016:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRRs (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$ —	\$ —	N/A	—	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100	—	—	N/A	—	3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422	—	—	N/A	—	9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	24,575	22,632	1.8x	—	2,951,018	1.4x	2,973,650	1.4x	6%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	216,926	1,460,777	1.3x	46%	19,952,530	3.1x	21,413,307	2.8x	41%	36%
BCP V (Dec 2005 / Jan 2011)	21,017,433	1,253,663	5,957,077	1.7x	72%	31,821,687	1.9x	37,778,764	1.9x	9%	8%
BCP VI (Jan 2011 / May 2016)	15,189,353	1,776,532	15,854,868	1.4x	22%	3,942,475	1.8x	19,797,343	1.5x	32%	11%
BEP I (Aug 2011 / Feb 2015)	2,436,078	187,672	2,659,738	1.4x	29%	829,913	1.9x	3,489,651	1.5x	42%	13%
BEP II (Feb 2015 / Feb 2021)	4,951,351	4,089,146	641,600	1.4x	—	—	N/A	641,600	1.4x	N/A	36%
BCP VII (May 2016 / May 2022)	18,898,630	18,254,809	370,284	1.1x	—	—	N/A	370,284	1.1x	N/A	N/M
Total Corporate Private Equity	\$77,590,960	\$25,803,323	\$26,966,976	1.4x	34%	\$73,680,868	2.2x	\$100,647,844	1.9x	18%	15%
Tactical Opportunities	13,447,861	6,215,643	7,824,565	1.2x	6%	2,247,290	1.5x	10,071,855	1.2x	26%	11%
Tactical Opportunities Co-Investment and Other	2,873,160	1,056,397	1,752,248	1.1x	—	308,807	1.4x	2,061,055	1.1x	N/A	9%
Strategic Partners I-V and Co-Investment (d)	12,143,335	2,018,981	3,120,054	N/M	—	14,058,294	N/M	17,178,348	1.5x	N/A	13%
Strategic Partners VI LBO, RE and SMA (d)	7,402,171	2,505,871	3,532,679	N/M	—	1,009,080	N/M	4,541,759	1.3x	N/A	24%
Strategic Partners VII (d)	7,489,970	6,822,033	374,012	N/M	—	—	N/A	374,012	1.0x	N/A	N/M
BCEP (e)	3,871,770	3,871,770	—	N/A	—	—	N/A	—	N/A	N/A	N/A
Other Funds and Co-Investment (f)	1,799,293	760,624	45,093	0.9x	77%	618,429	1.0x	663,522	1.0x	N/M	N/M
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$ —	\$ —	N/A	—	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	—	—	N/A	—	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	—	—	N/A	—	2,531,614	2.1x	2,531,614	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	—	—	N/A	—	3,330,406	2.4x	3,330,406	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	—	374,698	0.5x	28%	4,160,509	2.2x	4,535,207	1.7x	31%	12%
BREP V (Dec 2005 / Feb 2007)	5,539,418	—	2,771,759	2.2x	24%	10,308,751	2.3x	13,080,510	2.3x	12%	11%
BREP VI (Feb 2007 / Aug 2011)	11,060,444	554,233	6,109,036	2.4x	68%	20,486,220	2.4x	26,595,256	2.4x	14%	13%
BREP VII (Aug 2011 / Apr 2015)	13,493,022	2,291,266	14,296,739	1.6x	—	10,966,655	1.9x	25,263,394	1.7x	29%	19%
BREP VIII (Apr 2015 / Oct 2020)	16,152,228	10,654,202	7,015,649	1.3x	1%	1,753,982	1.2x	8,769,631	1.3x	17%	19%
Total Global BREP	\$51,686,275	\$13,499,701	\$30,567,881	1.6x	16%	\$55,211,035	2.2x	\$ 85,778,916	1.9x	20%	16%
<b>Euro</b>											
BREP Int'l (Jan 2001 / Sep 2005)	€ 824,172	€ —	€ —	N/A	—	€ 1,369,016	2.1x	€ 1,369,016	2.1x	23%	23%
BREP Int'l II (Sep 2005 / Jun 2008)	1,629,748	—	577,893	1.3x	70%	1,772,031	1.9x	2,349,924	1.7x	8%	6%
BREP Europe III (Jun 2008 / Sep 2013)	3,205,140	476,226	2,847,028	1.8x	—	2,920,752	2.2x	5,767,780	2.0x	23%	16%
BREP Europe IV (Sep 2013 / Dec 2016)	6,726,403	1,677,028	7,449,000	1.4x	3%	893,829	1.5x	8,342,829	1.4x	24%	14%
BREP Europe V (Dec 2016 / Jun 2022)	6,588,051	6,688,769	133,800	1.0x	—	—	N/A	133,800	1.0x	N/A	N/A
Total Euro BREP	€18,973,514	€ 8,842,023	€11,007,721	1.4x	6%	€ 6,955,628	2.0x	€ 17,963,349	1.6x	16%	13%
BREP Co-Investment (g)	\$ 6,819,065	\$ 146,573	\$ 3,997,959	1.8x	40%	\$ 9,162,086	2.1x	\$ 13,160,045	2.0x	17%	16%
BREP Asia (Jun 2013 / Dec 2017)	5,084,905	3,054,509	2,931,392	1.4x	1%	1,373,173	1.6x	4,304,565	1.5x	17%	17%
Total BREP	\$86,954,232	\$25,999,938	\$51,144,228	1.5x	15%	\$74,961,402	2.1x	\$126,105,630	1.8x	19%	16%
BPP (h)	\$13,027,535	\$ 2,394,321	\$12,533,099	1.2x	—	\$ 107,286	1.9x	\$ 12,640,385	1.2x	36%	13%
BREDS (i)	\$11,576,788	\$ 6,996,094	\$ 2,352,803	1.2x	—	\$ 6,632,401	1.3x	\$ 8,985,204	1.3x	13%	11%
<b>Hedge Fund Solutions</b>											
BSCH (Dec 2013 / Jun 2020) (j)	\$ 3,300,600	\$ 2,630,702	\$ 677,437	1.0x	—	\$ 88,515	N/A	\$ 765,952	1.2x	N/A	3%
BSCH Co-Investment	75,500	31,237	44,495	1.0x	—	1,427	N/A	45,922	1.0x	N/A	0%
Total Hedge Fund Solutions	\$ 3,376,100	\$ 2,661,939	\$ 721,932	1.0x	—	\$ 89,942	N/A	\$ 811,874	1.2x	N/A	2%

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRRs (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Credit (k)</b>											
<b>Dollar</b>											
Mezzanine I (Jul 2007 / Oct 2011)	\$ 2,000,000	\$ 99,280	\$ 194,993	1.4x	—	\$ 4,635,213	1.6x	\$ 4,830,206	1.6x	N/A	17%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	990,002	3,354,761	1.1x	—	2,177,780	1.5x	5,532,541	1.2x	N/A	13%
Mezzanine III (Sep 2016 / Sep 2021)	6,639,133	6,331,744	316,601	1.0x	—	—	N/A	316,601	1.0x	N/A	N/M
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	400,900	1,096,764	1.1x	—	4,826,251	1.5x	5,923,015	1.4x	N/A	11%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	2,072,032	3,703,422	1.2x	—	551,534	1.2x	4,254,956	1.2x	N/A	18%
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,866	2,541,537	438,805	1.2x	—	158,347	1.6x	597,152	1.3x	N/A	36%
<b>Euro</b>											
European Senior Debt Fund (Feb 2015 / Feb 2018)	€ 1,964,689	€ 2,960,224	€ 855,997	1.0x	—	€ 142,288	1.2x	€ 998,285	1.0x	N/A	0%
Total Credit	<u>\$26,260,552</u>	<u>\$15,567,412</u>	<u>\$10,011,237</u>	<u>1.1x</u>	<u>—</u>	<u>\$12,506,594</u>	<u>1.5x</u>	<u>\$22,517,831</u>	<u>1.3x</u>	<u>N/A</u>	<u>14%</u>

N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital and may include leverage, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital (“MOIC”) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return (“IRR”) represents the annualized inception to December 31, 2016 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Realizations are treated as return of capital until fully recovered and therefore unrealized and realized MOICs are not meaningful.
- (e) BCEP, or Blackstone Core Equity Partners, is a core private equity fund which invests with a more modest risk profile and longer hold period.
- (f) Returns for Other Funds and Co-Investment are not meaningful as these funds have limited transaction activity.
- (g) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment’s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (h) BPP represents the core+ real estate funds which invest with a more modest risk profile and lower leverage.
- (i) Excludes Capital Trust drawdown funds.
- (j) BSCH, or Blackstone Strategic Capital Holdings, is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
- (k) Funds presented represent the flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the seven credit drawdown funds presented.

**Segment Analysis**

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to “our” sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

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**Private Equity**

The following table presents the results of operations for our Private Equity segment:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 554,134	\$ 502,640	\$ 415,841	\$ 51,494	10%	\$ 86,799	21%
Advisory Fees	3,207	10,561	21,903	(7,354)	-70%	(11,342)	-52%
Transaction and Other Fees, Net	38,666	36,258	135,718	2,408	7%	(99,460)	-73%
Management Fee Offsets	(34,810)	(36,760)	(19,146)	1,950	-5%	(17,614)	92%
Total Management Fees, Net	<u>561,197</u>	<u>512,699</u>	<u>554,316</u>	<u>48,498</u>	<u>9%</u>	<u>(41,617)</u>	<u>-8%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	245,268	1,474,987	754,402	(1,229,719)	-83%	720,585	96%
<b>Unrealized</b>							
Carried Interest	424,781	(717,955)	1,222,828	1,142,736	N/M	(1,940,783)	N/M
Total Performance Fees	<u>670,049</u>	<u>757,032</u>	<u>1,977,230</u>	<u>(86,983)</u>	<u>-11%</u>	<u>(1,220,198)</u>	<u>-62%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	73,377	189,649	202,719	(116,272)	-61%	(13,070)	-6%
<b>Unrealized</b>							
Unrealized	(4,843)	(116,338)	(23,914)	111,495	-96%	(92,424)	386%
Total Investment Income	<u>68,534</u>	<u>73,311</u>	<u>178,805</u>	<u>(4,777)</u>	<u>-7%</u>	<u>(105,494)</u>	<u>-59%</u>
Interest and Dividend Revenue	40,271	33,218	21,993	7,053	21%	11,225	51%
Other	20,458	5,854	6,569	14,604	249%	(715)	-11%
Total Revenues	<u>1,360,509</u>	<u>1,382,114</u>	<u>2,738,913</u>	<u>(21,605)</u>	<u>-2%</u>	<u>(1,356,799)</u>	<u>-50%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	310,457	280,248	280,499	30,209	11%	(251)	-0%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	110,882	256,922	266,393	(146,040)	-57%	(9,471)	-4%
<b>Unrealized</b>							
Carried Interest	163,937	(10,172)	210,446	174,109	N/M	(220,618)	N/M
Total Compensation and Benefits	<u>585,276</u>	<u>526,998</u>	<u>757,338</u>	<u>58,278</u>	<u>11%</u>	<u>(230,340)</u>	<u>-30%</u>
Other Operating Expenses	196,433	199,158	143,562	(2,725)	-1%	55,596	39%
Total Expenses	<u>781,709</u>	<u>726,156</u>	<u>900,900</u>	<u>55,553</u>	<u>8%</u>	<u>(174,744)</u>	<u>-19%</u>
Economic Income	<u>\$ 578,800</u>	<u>\$ 655,958</u>	<u>\$ 1,838,013</u>	<u>\$ (77,158)</u>	<u>-12%</u>	<u>\$ (1,182,055)</u>	<u>-64%</u>

N/M Not meaningful.



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*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Revenues*

Revenues were \$1.4 billion for the year ended December 31, 2016, a decrease of \$21.6 million compared to \$1.4 billion for the year ended December 31, 2015. The decrease in revenues was attributable to a decrease in Performance Fees of \$87.0 million, partially offset by an increase in Total Management Fees, Net of \$48.5 million.

Revenues in our Private Equity segment in 2016 were moderately lower compared to 2015, primarily driven by lower Performance Fees from BCP V as a result of modestly lower appreciation and significant realizations in the year. Although BCP V remained below its accumulated preferred return on a realized basis for a substantial part of 2016, subsequent to the end of the fourth quarter, it made up this shortfall and returned to generating realized carried interest. The market environment in 2016 was and in early 2017 continues to be generally characterized by high prices and as a result, the market for new investments remains challenging, although in 2016 our Private Equity funds were able to take advantage of market dislocation to deploy significant capital, particularly in energy investments. Our portfolio companies continue to operate in a stable, if slow growing, economic environment characterized by uncertainty surrounding governmental and tax policy. Revenues in the Private Equity segment would likely be negatively impacted if the identification of capital deployment opportunities remained challenging, the capital markets experienced another period of volatility, including as a result of uncertainty regarding governmental and tax policy, or market and/or macroeconomic conditions were to deteriorate.

Performance Fees, which are determined on a fund by fund basis, were \$670.0 million for the year ended December 31, 2016, a decrease of \$87.0 million, compared to \$757.0 million for the year ended December 31, 2015, principally due to lower appreciation in BCP V compared to 2015, partially offset by greater appreciation in our BCP VI and BCP IV funds.

Total Management Fees were \$561.2 million for the year ended December 31, 2016, an increase of \$48.5 million compared to \$512.7 million for the year ended December 31, 2015, driven primarily by an increase in Base Management Fees. Base Management Fees were \$554.1 million for the year ended December 31, 2016, an increase of \$51.5 million compared to \$502.6 million for the year ended December 31, 2015, primarily due to the addition of Fee-Earning Assets Under Management across the segment.

The Annualized Base Management Fee Rate decreased from 1.12% at December 31, 2015 to 0.93% at December 31, 2016. The decrease was primarily due to lower fees from BCP VI as a result of the end of its investment period in the second quarter of 2016 and a six month fee holiday for BCP VII, which commenced its investment period in 2016.

*Expenses*

Expenses were \$781.7 million for the year ended December 31, 2016, an increase of \$55.6 million, compared to \$726.2 million for the year ended December 31, 2015. The increase was primarily attributable to increases in Compensation and Performance Fee Compensation of \$30.2 million and \$28.1 million, respectively. Compensation increased primarily due to the increase in Management Fee Revenue, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Performance Fee Compensation was the result of an increase in Performance Fees Revenues from funds with a higher, more normalized compensation ratio.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.4 billion for the year ended December 31, 2015, a decrease of \$1.4 billion compared to \$2.7 billion for the year ended December 31, 2014. The decrease in revenues was attributable to decreases in Performance Fees, Investment Income, and Total Management Fees, Net of \$1.2 billion, \$105.5 million and \$41.6 million, respectively.

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Performance Fees, which are determined on a fund by fund basis, were \$757.0 million for the year ended December 31, 2015, a decrease of \$1.2 billion, compared to \$2.0 billion for the year ended December 31, 2014, principally due to the performance in our corporate private equity funds, which generated overall solid net performance which was, however, lower than the net returns in 2014. The returns in these funds were driven by strong operating performance across most of our private and public portfolios.

Investment Income was \$73.3 million for the year ended December 31, 2015, a decrease of \$105.5 million, compared to \$178.8 million for the year ended December 31, 2014, primarily due to our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year, but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio.

Total Management Fees were \$512.7 million for the year ended December 31, 2015, a decrease of \$41.6 million compared to \$554.3 million for the year ended December 31, 2014, driven primarily by decreases in Transaction and Other Fees, Net and Management Fee Offsets, partially offset by an increase in Base Management Fees. Transaction and Other Fees were \$36.3 million for the year ended December 31, 2015, a decrease of \$99.5 million compared to \$135.7 million for the year ended December 31, 2014, primarily due to the timing of investment closings and the elimination of monitoring fee termination payments. Management Fee Offsets were \$(36.8) million for the year ended December 31, 2015, a decrease of \$17.6 million compared to \$(19.1) million for the year ended December 31, 2014, primarily due to the increased offset rates in recent funds. Base Management Fees were \$502.6 million for the year ended December 31, 2015, an increase of \$86.8 million compared to \$415.8 million for the year ended December 31, 2014, primarily due to the increase in the funds raised for Tactical Opportunities and Strategic Partners.

The Annualized Base Management Fee Rate increased from 0.96% at December 31, 2014 to 1.12% at December 31, 2015. The increase was primarily due to the equalization of Base Management Fees for BTAS in the fourth quarter of 2015 whereby, pursuant to the terms of the applicable fund agreements, limited partners coming into the fund were retroactively charged Base Management Fees back to the inception of the fund.

*Expenses*

Expenses were \$726.2 million for the year ended December 31, 2015, a decrease of \$174.7 million, compared to \$900.9 million for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of \$230.1 million in Performance Fee Compensation, slightly offset by a \$55.6 million increase in Other Operating Expenses. Performance Fee Compensation decreased as a result of the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was primarily due to non-recurring costs related to the SEC settlement, an increase in interest allocated to the segment and certain one-time costs associated with fundraising.

*Fund Returns*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the internal rates of return of our significant private equity funds:

Fund (a)	Year Ended December 31,						December 31, 2016 Inception to Date			
	2016		2015		2014		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	22%	19%	-6%	-6%	-4%	-2%	55%	41%	50%	36%
BCP V	9%	7%	11%	8%	35%	24%	11%	9%	10%	8%
BCOM	18%	16%	50%	49%	12%	20%	13%	6%	13%	6%
BCP VI	12%	9%	11%	8%	24%	18%	42%	32%	17%	11%
BEP I	9%	7%	-5%	-4%	15%	12%	44%	42%	17%	13%
BEP II (b)	93%	51%	N/M	N/M	N/A	N/A	N/A	N/A	90%	36%
Tactical Opportunities	12%	9%	12%	8%	22%	17%	34%	26%	14%	11%
Strategic Partners	1%	—	22%	19%	24%	20%	N/A	N/A	17%	14%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and carried interest allocations.
- (b) BEP II's 2015 investment returns are presented as N/M as all investments in the fund had been held for less than one year.

The corporate private equity funds within the Private Equity segment have five funds with closed investment periods: BCP IV, BCP V, BCP VI, BCOM and BEP I. As of December 31, 2016, BCP IV was above its carried interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive carried interest) and would still be above its carried interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V “main fund” and BCP V-AC fund. Within these fund classes, the general partner is subject to equalization such that (a) the general partner accrues carried interest when the total carried interest for the combined fund classes is positive and (b) the general partner realizes carried interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective carried interest thresholds. BCP VI is currently above its carried interest threshold. BCOM is currently above its carried interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized carried interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses. BEP I is currently above its carried interest threshold.

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**Real Estate**

The following table presents the results of operations for our Real Estate segment:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 795,161	\$ 668,575	\$ 628,502	\$ 126,586	19%	\$ 40,073	6%
Transaction and Other Fees, Net	95,324	110,577	91,610	(15,253)	-14%	18,967	21%
Management Fee Offsets	(7,322)	(26,840)	(34,443)	19,518	-73%	7,603	-22%
Total Management Fees, Net	<u>883,163</u>	<u>752,312</u>	<u>685,669</u>	<u>130,851</u>	<u>17%</u>	<u>66,643</u>	<u>10%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,203,484	1,634,733	1,487,762	(431,249)	-26%	146,971	10%
Incentive Fees	29,625	17,153	11,499	12,472	73%	5,654	49%
<b>Unrealized</b>							
Carried Interest	(150,997)	(680,542)	524,046	529,545	-78%	(1,204,588)	N/M
Incentive Fees	39,527	20,802	(5,521)	18,725	90%	26,323	N/M
Total Performance Fees	<u>1,121,639</u>	<u>992,146</u>	<u>2,017,786</u>	<u>129,493</u>	<u>13%</u>	<u>(1,025,640)</u>	<u>-51%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	122,712	235,582	309,095	(112,870)	-48%	(73,513)	-24%
<b>Unrealized</b>							
Carried Interest	(1,119)	(231,889)	(58,930)	230,770	-100%	(172,959)	293%
Total Investment Income	<u>121,593</u>	<u>3,693</u>	<u>250,165</u>	<u>117,900</u>	<u>N/M</u>	<u>(246,472)</u>	<u>-99%</u>
Interest and Dividend Revenue	54,240	43,990	30,197	10,250	23%	13,793	46%
Other	16,523	(1,422)	2,863	17,945	N/M	(4,285)	N/M
Total Revenues	<u>2,197,158</u>	<u>1,790,719</u>	<u>2,986,680</u>	<u>406,439</u>	<u>23%</u>	<u>(1,195,961)</u>	<u>-40%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	385,352	358,381	326,317	26,971	8%	32,064	10%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	332,622	484,037	432,996	(151,415)	-31%	51,041	12%
Incentive Fees	12,085	8,678	5,980	3,407	39%	2,698	45%
<b>Unrealized</b>							
Carried Interest	44,775	(196,347)	197,174	241,122	N/M	(393,521)	N/M
Incentive Fees	16,872	8,817	(2,751)	8,055	91%	11,568	N/M
Total Compensation and Benefits	<u>791,706</u>	<u>663,566</u>	<u>959,716</u>	<u>128,140</u>	<u>19%</u>	<u>(296,150)</u>	<u>-31%</u>
Other Operating Expenses	<u>203,962</u>	<u>179,175</u>	<u>146,083</u>	<u>24,787</u>	<u>14%</u>	<u>33,092</u>	<u>23%</u>
Total Expenses	<u>995,668</u>	<u>842,741</u>	<u>1,105,799</u>	<u>152,927</u>	<u>18%</u>	<u>(263,058)</u>	<u>-24%</u>
Economic Income	<u>\$1,201,490</u>	<u>\$ 947,978</u>	<u>\$1,880,881</u>	<u>\$ 253,512</u>	<u>27%</u>	<u>\$ (932,903)</u>	<u>-50%</u>

N/M Not meaningful.

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*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Revenues*

Revenues were \$2.2 billion for the year ended December 31, 2016, an increase of \$406.4 million compared to \$1.8 billion for the year ended December 31, 2015. The increase in revenues was primarily attributable to increases in Total Management Fees, Net, Performance Fees and Investment Income of \$130.9 million, \$129.5 million and \$117.9 million, respectively.

In 2016, revenues in our Real Estate segment increased primarily due to appreciation in public and private investment holdings in our real estate opportunistic funds and increased management fees primarily from BREP VIII committed capital and BPP invested capital. Overall, operating trends in our Real Estate portfolio remain stable and supply-demand fundamentals remain solid in most markets, although we see decelerating growth in certain geographies. As a result of less distress and rising asset values compared to late 2015 and early 2016, in the U.S., the second half of 2016 was a more challenging opportunistic investment environment. In 2016, our Real Estate funds remained active in both realizations and deployment, though activity decreased moderately compared to 2015. In our real estate debt funds, liquid fund performance continued to improve in the fourth quarter of 2016, recovering from the general market softening earlier in the year. Revenues in our Real Estate segment would likely be negatively impacted if the capital markets experienced a period of prolonged volatility, including as a result of uncertainty regarding governmental and tax policy, or market and/or macroeconomic conditions were to deteriorate.

Total Management Fees, Net were \$883.2 million for the year ended December 31, 2016, an increase of \$130.9 million compared to \$752.3 million for the year ended December 31, 2015, primarily attributable to an increase in Base Management Fees. Base Management Fees were \$795.2 million for the year ended December 31, 2016, an increase of \$126.6 million compared to \$668.6 million for the year ended December 31, 2015. The increase was principally due to increased commitments in BREP VIII and an increase in invested capital in BPP, partially offset by realizations across the portfolio.

The annualized Base Management Fee Rate decreased from 1.19% at December 31, 2015 to 1.09% at December 31, 2016. The decrease was principally due to commencement of the investment period of BREP Europe V in the fourth quarter of 2016, which added Fee-Earning Assets Under Management, the majority of which are under a Base Management Fee holiday until the second quarter of 2017.

Performance Fees, which are determined on a fund by fund basis, were \$1.1 billion for the year ended December 31, 2016, an increase of \$129.5 million compared to \$992.1 million for the year ended December 31, 2015. The increase in Performance Fees was primarily due to a year over year increase in the net appreciation of investment holdings in our real estate opportunistic funds, which appreciated 11.1% compared to 9.7% in the prior period. Our core+ real estate funds, real estate debt drawdown and hedge funds appreciated 10.9%, 11.7% and 0.3%, respectively.

Investment Income was \$121.6 million for the year ended December 31, 2016, an increase of \$117.9 million compared to \$3.7 million for the year ended December 31, 2015. The increase in Investment Income was primarily due to the net appreciation of investments in BREP VI, in which the general partner has made a larger commitment than in other real estate funds.

*Expenses*

Expenses were \$995.7 million for the year ended December 31, 2016, an increase of \$152.9 million, compared to \$842.7 million for the year ended December 31, 2015. The increase was primarily attributable to increases in Performance Fee Compensation, Compensation and Other Operating Expenses of \$101.2 million, \$27.0 million and \$24.8 million, respectively. The increase in Performance Fee Compensation was the result of an increase in Performance Fees Revenue. The increase in Compensation was due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business.

The increase in Other Operating Expenses was primarily due to an increase in interest and other expenses allocated to the segment.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.8 billion for the year ended December 31, 2015, a decrease of \$1.2 billion compared to \$3.0 billion for the year ended December 31, 2014. The decrease in revenues was primarily attributable to decreases in Performance Fees and Investment Income of \$1.0 billion and \$246.5 million, respectively, partially offset by an increase in Total Management Fees, Net of \$66.6 million.

Performance Fees, which are determined on a fund by fund basis, were \$992.1 million for the year ended December 31, 2015, a decrease of \$1.0 billion compared to \$2.0 billion for the year ended December 31, 2014. Performance Fees decreased by \$1.0 billion due to a year over year decrease in the net appreciation of investments in our real estate opportunistic funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone's contributed real estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%. Our BREDS drawdown and real estate hedge funds appreciated 13.0% and 2.9%, respectively.

Investment Income was \$3.7 million for the year ended December 31, 2015, a decrease of \$246.5 million compared to \$250.2 million for the year ended December 31, 2014. The decrease in Investment Income was due to a year over year net depreciation of investments in BREP VI, in which the general partner has made a larger commitment than in other real estate funds.

Total Management Fees, Net were \$752.3 million for the year ended December 31, 2015, an increase of \$66.6 million compared to \$685.7 million for the year ended December 31, 2014, primarily attributable to increases in Base Management Fees. Base Management Fees were \$668.6 million for the year ended December 31, 2015, an increase of \$40.1 million compared to \$628.5 million for the year ended December 31, 2014. The increase was principally due to fees generated from fundraising within BREP VIII, BPP and invested capital within BREDS, partially offset by realizations across the portfolio.

*Expenses*

Expenses were \$842.7 million for the year ended December 31, 2015, a decrease of \$263.1 million, compared to \$1.1 billion for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$328.2 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$33.1 million, respectively. The decrease in Performance Fee Compensation is the result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment and certain one-time costs associated with fundraising.

*Fund Returns*

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2016 Inception to Date			
	2016		2015		2014		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP IV	-12%	10%	-2%	-2%	12%	9%	52%	31%	22%	12%
BREP V	7%	7%	16%	14%	25%	21%	16%	12%	14%	11%
BREP VI	21%	17%	-2%	-2%	20%	17%	19%	14%	17%	13%
BREP VII	7%	4%	19%	14%	33%	25%	40%	29%	26%	19%
BREP VIII	29%	19%	N/M	N/M	N/A	N/A	27%	17%	31%	19%
BREP International II (b)	23%	23%	20%	17%	27%	25%	10%	8%	7%	6%
BREP Europe III (b)	-4%	-4%	21%	17%	32%	25%	34%	23%	24%	16%
BREP Europe IV (b)	14%	10%	27%	19%	32%	20%	38%	24%	21%	14%
BREP Co-Investment (c)	16%	14%	—	—	24%	22%	19%	17%	17%	16%
BREP Asia	30%	21%	22%	13%	19%	10%	23%	17%	26%	17%
BPP	11%	10%	17%	15%	28%	24%	37%	36%	15%	13%
BREDS Drawdown	14%	10%	14%	9%	15%	10%	17%	13%	16%	11%
BREDS Liquid	4%	2%	6%	3%	8%	5%	N/A	N/A	12%	8%

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based internal rates of return.
- (c) Excludes fully realized co-investments prior to Blackstone's IPO.

The following table presents the carried interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2016:

Fully Invested Funds	Gain to Cross Carried Interest Threshold (a)		
	Amount	% Change in Total Enterprise Value (b)	% Change in Equity Value
		(Amounts in Millions)	
BREP Int'l II (Sep 2005 / Jun 2008)	€ 792	42%	149%

- (a) The general partner of each fund is allocated carried interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross carried interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing carried interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has three funds in their investment period, which were above their respective carried interest thresholds as of December 31, 2016: BREP VIII, BREP Asia and BREDS III.

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**Hedge Fund Solutions**

The following table presents the results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$521,736	\$524,386	\$482,981	\$ (2,650)	-1%	\$ 41,405	9%
Transaction and Other Fees, Net	1,061	317	569	744	235%	(252)	-44%
Management Fee Offsets	—	171	(5,014)	(171)	-100%	5,185	N/M
Total Management Fees, Net	<u>522,797</u>	<u>524,874</u>	<u>478,536</u>	<u>(2,077)</u>	<u>-0%</u>	<u>46,338</u>	<u>10%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Incentive Fees	42,177	68,197	140,529	(26,020)	-38%	(72,332)	-51%
<b>Unrealized</b>							
Carried Interest	504	2,021	—	(1,517)	-75%	2,021	N/M
Incentive Fees	785	(8,084)	(879)	8,869	N/M	(7,205)	820%
Total Performance Fees	<u>43,466</u>	<u>62,134</u>	<u>139,650</u>	<u>(18,668)</u>	<u>-30%</u>	<u>(77,516)</u>	<u>-56%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Unrealized	(7,224)	(12,741)	21,550	5,517	-43%	(34,291)	N/M
<b>Unrealized</b>							
Carried Interest	15,462	(1,435)	5,132	16,897	N/M	(6,567)	N/M
Incentive Fees	8,238	(14,176)	26,682	22,414	N/M	(40,858)	N/M
Total Investment Income (Loss)	<u>8,238</u>	<u>(14,176)</u>	<u>26,682</u>	<u>22,414</u>	<u>N/M</u>	<u>(40,858)</u>	<u>N/M</u>
Interest and Dividend Revenue	23,083	17,274	11,114	5,809	34%	6,160	55%
Other	8,157	200	1,855	7,957	N/M	(1,655)	-89%
Total Revenues	<u>605,741</u>	<u>590,306</u>	<u>657,837</u>	<u>15,435</u>	<u>3%</u>	<u>(67,531)</u>	<u>-10%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	185,320	179,484	131,658	5,836	3%	47,826	36%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Incentive Fees	19,397	27,155	42,451	(7,758)	-29%	(15,296)	-36%
<b>Unrealized</b>							
Carried Interest	181	823	—	(642)	-78%	823	N/M
Incentive Fees	292	(2,912)	(273)	3,204	N/M	(2,639)	967%
Total Compensation and Benefits	<u>205,190</u>	<u>204,550</u>	<u>173,836</u>	<u>640</u>	<u>0%</u>	<u>30,714</u>	<u>18%</u>
Other Operating Expenses	108,636	90,072	86,129	18,564	21%	3,943	5%
Total Expenses	<u>313,826</u>	<u>294,622</u>	<u>259,965</u>	<u>19,204</u>	<u>7%</u>	<u>34,657</u>	<u>13%</u>
Economic Income	<u>\$291,915</u>	<u>\$295,684</u>	<u>\$397,872</u>	<u>\$ (3,769)</u>	<u>-1%</u>	<u>\$(102,188)</u>	<u>-26%</u>

N/M Not meaningful.



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*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Revenues*

Revenues were \$605.7 million for the year ended December 31, 2016, an increase of \$15.4 million compared to \$590.3 million for the year ended December 31, 2015. The increase in revenues was primarily attributable to increases in Investment Income (Loss), Other Revenue and Interest and Dividend Revenue of \$22.4 million, \$8.0 million, and \$5.8 million, respectively. These increases were partially offset by decreases in Performance Fees of \$18.7 million.

Revenues in our Hedge Fund Solutions segment in 2016 were moderately lower than in 2015 primarily driven by lower Performance Fees as a result of the significant volatility in global markets and the decline in equity and fixed income asset prices in the first quarter of 2016. Beginning with the second quarter of 2016, the BPS composite began to rebound, ending the year up 3.5% gross (2.7% net). In addition, in the second half of 2016, a significant portion of Hedge Fund Solutions' Fee-Earning Assets Under Management eligible for Incentive Fees moved above the high water mark, resulting in approximately 78% of Fee-Earnings Assets Under Management eligible for Incentive Fees being above the high water mark as of the end of the year. Hedge Fund Solutions revenues would likely be negatively impacted if global asset prices experienced another period of extreme volatility or decline, including as a result of uncertainty regarding governmental and tax policy, or liquidity needs caused investors to withdraw assets. Despite challenging market conditions in early 2016, demand for products in Hedge Fund Solutions remained strong throughout the year, and the segment operates multiple business lines, manages strategies that are both long and short asset classes and generates a majority of its revenue through management fees, all of which provide a level of downside protection to Hedge Fund Solutions revenues.

Investment Income (Loss) was \$8.2 million for the year ended December 31, 2016, an increase of \$22.4 million compared to \$(14.2) million for the year ended December 31, 2015. The increase in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Other Revenue was \$8.2 million for the year ended December 31, 2016, an increase of \$8.0 million compared to \$0.2 million for the year ended December 31, 2015. The increase in Other Revenue was primarily driven by an increase in revenue allocations to the segment.

Interest and Dividend Revenue was \$23.1 million for the year ended December 31, 2016, an increase of \$5.8 million compared to \$17.3 million for the year ended December 31, 2015. The increase in Interest and Dividend Revenue was primarily driven by net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$43.5 million for the year ended December 31, 2016, a decrease of \$18.7 million compared to \$62.1 million for the year ended December 31, 2015. The decrease was principally due to lower returns for a number of our funds.

*Expenses*

Expenses were \$313.8 million for the year ended December 31, 2016, an increase of \$19.2 million compared to the year ended December 31, 2015. The increase was primarily attributable to an \$18.6 million increase in Other Operating Expenses. Other Operating Expenses were \$108.6 million for the year ended December 31, 2016, an increase of \$18.6 million compared to \$90.1 million for the year ended December 31, 2015. The increase in Other Operating Expenses was primarily due to interest and other expenses allocated to the segment.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$590.3 million for the year ended December 31, 2015, a decrease of \$67.5 million compared to \$657.8 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to

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decreases in Performance Fees and Investment Income of \$77.5 million and \$40.9 million, respectively, partially offset by an increase in Total Management Fees, Net of \$46.3 million.

Performance Fees were \$62.1 million for the year ended December 31, 2015, a decrease of \$77.5 million compared to \$139.7 million for the year ended December 31, 2014. This was primarily due to lower returns. The net returns of the underlying assets within the BPS Composite funds were 2.1% during the year ended December 31, 2015.

Investment Loss was \$14.2 million for the year ended December 31, 2015, a decrease of \$40.9 million compared to Investment Income of \$26.7 million for the year ended December 31, 2014. The decrease in Investment Income was primarily driven by the year over year net depreciation of investments of which Blackstone owns a share.

Total Management Fees, Net were \$524.9 million for the year ended December 31, 2015, an increase of \$46.3 million compared to \$478.5 million for the year ended December 31, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$524.4 million for the year ended December 31, 2015, an increase of \$41.4 million compared to \$483.0 million for the year ended December 31, 2014. This was driven by an increase in Fee-Earning Assets Under Management of 7% from the prior year, which was from net inflows and market appreciation.

*Expenses*

Expenses were \$294.6 million for the year ended December 31, 2015, an increase of \$34.7 million compared to the year ended December 31, 2014. The increase was primarily attributable to a \$47.8 million increase in Compensation, and a \$3.9 million increase in Other Operating Expenses, partially offset by a \$17.1 million decrease in Performance Fee Compensation. Compensation was \$179.5 million for the year ended December 31, 2015, an increase of \$47.8 million compared to \$131.7 million for the prior year, due to an overall increase in Management Fees, on which a portion of compensation is based, an increase in headcount to support the growth of the business and a change in the terms of Deferred Compensation Plan awards. Other Operating Expenses were \$90.1 million for the year ended December 31, 2015, an increase of \$3.9 million compared to \$86.1 million for the year ended December 31, 2014. The increase in Other Operating Expenses was primarily due to interest allocated to the segment. Performance Fee Compensation was \$25.1 million for the year ended December 31, 2015, a decrease of \$17.1 million compared to \$42.2 million for the year ended December 31, 2014 due to the decrease in Performance Fees Revenue.

*Operating Metrics*

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark/Benchmark (a)		
	December 31,			December 31,		
	2014	2015	2016	2014	2015	2016
	(Dollars in Thousands)					
BAAM Managed Funds (b)	\$34,732,386	\$35,831,499	\$36,664,203	94%	81%	78%

(a) Estimated % Above High Water Mark/Benchmark represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance relative to a benchmark, where applicable. Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark or clear a benchmark return, thereby resulting in an increase in Estimated % Above High Water Mark/Benchmark.

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- (b) For the BAAM managed funds, at December 31, 2016 the incremental appreciation needed for the 22% of Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks to reach their respective High Water Marks/Benchmarks was \$684.3 million, an increase of \$447.7 million, compared to \$236.6 million at December 31, 2015. Of the Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks as of December 31, 2016, 37% were within 5% of reaching their respective High Water Mark.

*Composite Returns*

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Principal Solutions Composite:

<u>Composite</u>	<u>Average Annual Returns (a)</u>							
	<u>Periods Ended</u>							
	<u>December 31, 2016</u>							
	<u>One Year</u>		<u>Three Year</u>		<u>Five Year</u>		<u>Historical</u>	
<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	
BAAM Principal Solutions Composite (b)	3%	3%	5%	4%	7%	6%	7%	6%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions ("BPS") Composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. BPS Composite does not include BAAM's individual investor solutions (i.e., liquid alternatives), long biased commodities, ventures (i.e., seeding and minority interests), strategic opportunities (i.e., co-investments), Senfina (i.e., direct trading) and advisory (non-discretionary) platforms, except for investments by BPS funds directly into those platforms. BAAM managed funds in liquidation are also excluded. The historical return is from January 1, 2000.

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**Credit**

The following table presents the results of operations for our Credit segment:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 526,748	\$ 500,982	\$ 460,205	\$ 25,766	5%	\$ 40,777	9%
Transaction and Other Fees, Net	6,600	6,371	18,161	229	4%	(11,790)	-65%
Management Fee Offsets	(37,512)	(30,065)	(28,168)	(7,447)	25%	(1,897)	7%
Total Management Fees, Net	495,836	477,288	450,198	18,548	4%	27,090	6%
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	26,163	96,156	208,432	(69,993)	-73%	(112,276)	-54%
Incentive Fees	100,299	109,396	109,717	(9,097)	-8%	(321)	-0%
<b>Unrealized</b>							
Carried Interest	206,953	(198,820)	(37,913)	405,773	N/M	(160,907)	424%
Incentive Fees	9,417	(19,967)	(23,025)	29,384	N/M	3,058	-13%
Total Performance Fees	342,832	(13,235)	257,211	356,067	N/M	(270,446)	N/M
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	11,004	7,186	9,354	3,818	53%	(2,168)	-23%
<b>Unrealized</b>							
Carried Interest	10,921	(16,258)	5,055	27,179	N/M	(21,313)	N/M
Total Investment Income (Loss)	21,925	(9,072)	14,409	30,997	N/M	(23,481)	N/M
Interest and Dividend Revenue	28,289	24,599	23,040	3,690	15%	1,559	7%
Other	9,574	5,171	(2,310)	4,403	85%	7,481	N/M
Total Revenues	898,456	484,751	742,548	413,705	85%	(257,797)	-35%
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	202,087	190,189	188,200	11,898	6%	1,989	1%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	12,450	52,841	116,254	(40,391)	-76%	(63,413)	-55%
Incentive Fees	46,614	50,113	61,668	(3,499)	-7%	(11,555)	-19%
<b>Unrealized</b>							
Carried Interest	103,945	(107,000)	(28,583)	210,945	N/M	(78,417)	274%
Incentive Fees	3,970	(8,395)	(16,252)	12,365	N/M	7,857	-48%
Total Compensation and Benefits	369,066	177,748	321,287	191,318	108%	(143,539)	-45%
Other Operating Expenses	120,311	93,626	90,524	26,685	29%	3,102	3%
Total Expenses	489,377	271,374	411,811	218,003	80%	(140,437)	-34%
Economic Income	\$ 409,079	\$ 213,377	\$ 330,737	\$ 195,702	92%	\$ (117,360)	-35%

N/M Not meaningful.

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*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Revenues*

Revenues were \$898.5 million for the year ended December 31, 2016, an increase of \$413.7 million compared to \$484.8 million for the year ended December 31, 2015. The increase in revenues was primarily attributable to increases of \$356.1 million in Performance Fees, \$31.0 million in Investment Income (Loss) and \$18.5 million in Total Management Fees, Net.

Following a challenging credit market in 2015, which continued through early 2016, revenues in our Credit segment increased in 2016 as compared to 2015, driven by improved performance in our performing debt and distressed debt portfolios, with particularly strong performance in our energy investments. Despite the continuing low interest rate environment in 2016, our Credit funds were able to identify attractive investment opportunities by focusing on transactions where our scale and expertise granted us a competitive advantage, particularly in the performing and distressed credit markets. Our Credit segment revenues may, however, be negatively impacted by prolonged periods of market pressure, depressed energy prices, market volatility or uncertainty regarding governmental and tax policy.

Performance Fees were \$342.8 million for the year ended December 31, 2016, an increase of \$356.1 million compared to \$(13.2) million for the year ended December 31, 2015. This increase was primarily due to an appreciation of energy investments and distressed debt positions across funds. The composite net returns of Blackstone's significant Credit segment funds were 13.3% for Distressed Strategies and 16.7% for Performing Credit Strategies for the year ended December 31, 2016.

Investment Income (Loss) was \$21.9 million for the year ended December 31, 2016, an increase of \$31.0 million compared to \$(9.1) million for the year ended December 31, 2015. This increase was primarily due to unrealized investment gains in hedge fund strategies, rescue lending funds, mezzanine funds and funds in our long only strategies.

Total Management Fees, Net were \$495.8 million for the year ended December 31, 2016, an increase of \$18.5 million compared to \$477.3 million for the year ended December 31, 2015. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our credit drawdown funds and our BDCs.

*Expenses*

Expenses were \$489.4 million for the year ended December 31, 2016, an increase of \$218.0 million compared to \$271.4 million for the year ended December 31, 2015. The increase in expenses was attributable to increases of \$191.3 million and \$26.7 million in Total Compensation and Benefits and Other Operating Expenses, respectively. The increase in Total Compensation and Benefits was primarily due to an increase in Performance Fee Compensation of \$179.4 million. The increase in Performance Fee Compensation was due to the increase in Performance Fee Revenue. The increase in Other Operating Expenses was due to fundraising costs, depreciation and interest and other costs allocated to the segment.

*Year Ended December 31, 2015 Compared to December 31, 2014*

*Revenues*

Revenues were \$484.8 million for the year ended December 31, 2015, which were \$257.8 million lower compared to \$742.5 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to lower Performance Fees and Investment Income of \$270.4 million and \$23.5 million, respectively, partially offset by an increase of \$27.1 million in Total Management Fees, Net.

Performance Fee Losses were \$13.2 million for the year ended December 31, 2015, which were \$270.4 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund

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strategies business as well as our mezzanine and rescue lending businesses. The net returns of Blackstone's significant Credit segment funds were -5.8% for Hedge Fund Strategies, -2.2% for Mezzanine Strategies and -8.8% for Rescue Lending Strategies for the year ended December 31, 2015.

Investment Loss was \$9.1 million for the year ended December 31, 2015, which were \$23.5 million lower compared to the prior year. This decrease was primarily due to the unrealized investment losses in hedge fund strategies, mezzanine funds and funds in our long only strategies.

Total Management Fees, Net were \$477.3 million for the year ended December 31, 2015, an increase of \$27.1 million compared to \$450.2 million for the year ended December 31, 2014. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our BDCs.

#### Expenses

Expenses were \$271.4 million for the year ended December 31, 2015, a decrease of \$140.4 million compared to \$411.8 million for the year ended December 31, 2014. The decrease in expenses was primarily attributable to a decrease of \$145.5 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

#### Fund Returns

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents combined internal rates of return of the segment's Performing Credit and Distressed Strategies funds:

Composite (a)	Year Ended December 31,						Inception to	
	2016		2015		2014		December 31, 2016	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Performing Credit Strategies (b)	23%	17%	-1%	-5%	10%	6%	16%	9%
Distressed Strategies (c)	18%	13%	-7%	-8%	5%	3%	11%	7%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- Performing Credit Strategies include mezzanine lending funds, BDCs and other performing credit strategy funds. Performing Credit Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- Distressed Strategies include rescue lending funds, distressed hedge funds and energy strategies. Distressed Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from August 1, 2005.

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As of December 31, 2016, there was \$23.9 billion of Performance Fee eligible assets under management invested in Credit strategies that were above the hurdle necessary to generate Incentive Fees or carried interest. This represented 43% of the total Performance Fee eligible assets at fair value across all Credit strategies.

## **Liquidity and Capital Resources**

### ***General***

Blackstone's business model derives revenue primarily from third party assets under management. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, and pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, and Non-Controlling Interests in Consolidated Entities in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$26.4 billion as of December 31, 2016, an increase \$3.9 billion from December 31, 2015. The increase was principally due to an increase in Investments of \$3.4 billion.

Total liabilities were \$13.9 billion as of December 31, 2016, an increase of \$3.6 billion from December 31, 2015. The increase was principally due to an increase in Loans Payable of \$2.7 billion.

For the year ended December 31, 2016, we had Total Fee Related Revenues of \$2.5 billion and related expenses of \$1.5 billion, generating Fee Related Earnings of \$1.0 billion and Distributable Earnings of \$2.2 billion.

### ***Sources and Uses of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, the proceeds from our issuances of senior notes, liquid investments we hold on our balance sheet for our own use and access to our \$1.5 billion committed revolving credit facility. As of December 31, 2016, Blackstone had \$1.8 billion in cash and cash equivalents, \$2.8 billion invested in corporate treasury investments, \$2.2 billion invested in Blackstone Funds and other investments, against \$3.4 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

In addition to the cash we received from our debt offerings and availability under our committed revolving credit facility, we expect to receive (a) cash generated from operating activities, (b) carried interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

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We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2016 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VII	\$ 500,000	\$ 496,909	\$ 225,000	\$ 223,610
BCP VI	719,718	124,402	250,000	43,194
BCP V	629,356	40,519	—	—
BEP I	50,000	4,857	—	—
BEP II	80,000	72,139	26,667	24,047
BCEP	112,770	112,770	—	—
Tactical Opportunities	267,454	127,866	68,933	40,197
Strategic Partners	346,856	269,522	58,627	47,324
Other (c)	231,591	25,294	—	—
<b>Real Estate</b>				
BREP VIII	300,000	199,225	100,000	66,410
BREP VII	300,000	50,074	100,000	16,690
BREP VI	750,000	36,809	150,000	7,362
BREP Europe III	100,000	13,231	35,000	4,631
BREP Europe IV	130,000	28,456	43,333	9,487
BREP Europe V	130,000	127,537	43,333	42,513
BREP Asia	50,392	30,123	16,667	10,040
BREDS II	50,000	27,818	16,667	9,273
BREDS III	50,000	48,250	16,667	16,083
CT Opportunity Partners I (b)	25,000	25,000	—	—
Other (c)	130,271	26,487	—	—
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033	—	—
Strategic Alliance II	50,000	1,482	—	—
Strategic Alliance III	2,000	2,000	—	—
Strategic Holdings LP	50,000	40,009	—	—
Other (c)	800	270	—	—
<b>Credit</b>				
Capital Opportunities Fund II LP	120,000	46,844	110,101	42,980
GSO Capital Solutions II	125,000	72,628	119,959	69,699
Blackstone/GSO Capital Solutions	50,000	6,552	27,666	3,625
BMezz II	17,692	3,085	—	—
GSO Credit Alpha Fund LP	52,102	20,852	50,247	20,110
GSO Euro Senior Debt Fund LP	63,000	52,764	56,623	47,423
GSO Energy Select Opportunities Fund	80,000	72,740	74,657	67,883
Capital Opportunities Fund III LP	132,783	126,491	29,661	28,255
Other (c)	93,603	45,276	23,078	9,945
<b>Other</b>				
Treasury	261,999	86,664	—	—
<b>Total</b>	<b>\$ 6,102,387</b>	<b>\$ 2,466,978</b>	<b>\$ 1,642,886</b>	<b>\$ 850,781</b>

(a) For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate



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obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.

- (b) Represents a legacy fund managed by us as a result of the 2012 acquisition of the investment advisory business of BXMT.
- (c) Represents capital commitments to a number of other funds in each respective segment.

As of December 31, 2016, Blackstone Holdings Finance Co. L.L.C. (the “Issuer”), an indirect subsidiary of the Partnership, had issued and outstanding the following senior notes (collectively the “Notes”):

<u>Senior Notes (a)</u>	<u>Issue Date</u>	<u>Aggregate Principal Amount (Dollars/Euros in Thousands)</u>
6.625%, Due 8/15/2019	8/20/2009	\$ 600,000
5.875%, Due 3/15/2021	9/15/2010	\$ 400,000
4.750%, Due 2/15/2023	8/17/2012	\$ 400,000
6.250%, Due 8/15/2042	8/17/2012	\$ 250,000
5.000%, Due 6/15/2044	4/7/2014	\$ 500,000
4.450%, Due 7/15/2045	4/27/2015	\$ 350,000
2.000%, Due 5/19/2025	5/19/2015	€ 300,000
1.000%, Due 10/5/2026	10/5/2016	€ 600,000

- (a) The Notes are unsecured and unsubordinated obligations of the Issuer and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit the Issuer and the guarantors’ ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

Blackstone, through indirect subsidiaries, has a \$1.5 billion unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent with a maturity date of August 31, 2021. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2016,

no units were repurchased. As of December 31, 2016, the amount remaining under this program available for repurchases was \$335.8 million.

***Distributable Earnings, Fee Related Earnings and Economic Net Income***

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

The following table calculates Blackstone’s Fee Related Earnings, Distributable Earnings and Economic Net Income:

(Dollars in Thousands)	<u>2016</u>	<u>2015</u>	<u>2014</u>		
▶ Base Management Fees <sup>(a)</sup>	\$ 2,397,779	\$ 2,196,583	\$ 1,987,529	Fee Earnings	
▶ Advisory Fees <sup>(a)</sup>	3,207	308,131	420,845		
▶ Transaction and Other Fees, Net <sup>(a)</sup>	141,651	153,685	246,437		
▶ Management Fee Offsets <sup>(a)</sup>	(79,644)	(93,494)	(86,771)		
▶ Other Revenue <sup>(a)</sup>	54,712	8,500	9,405		
▶ Compensation <sup>(a)</sup>	(1,083,216)	(1,189,219)	(1,153,511)		
▶ Non-Interest Operating Expenses <sup>(b)</sup>	(431,836)	(448,575)	(420,927)		
<b>Fee Related Earnings</b>	<b>\$ 1,002,653</b>	<b>\$ 935,611</b>	<b>\$ 1,003,007</b>	Distributable Earnings	
▶ Net Realized Incentive Fees <sup>(b)</sup>	94,005	108,800	151,646		
▶ Net Realized Carried Interest <sup>(b)</sup>	1,018,961	2,412,076	1,634,953		
▶ Realized Investment Income <sup>(a)</sup>	199,869	418,808	543,425		
▶ Net Interest (Loss) <sup>(b)</sup>	(51,623)	(44,181)	(36,511)		
▶ Taxes and Related Payables <sup>(c)</sup>	(167,149)	(90,470)	(280,788)		
▶ Equity-Based Compensation <sup>(d)</sup>	79,571	103,044	48,226		
<b>Distributable Earnings</b>	<b>\$ 2,176,287</b>	<b>\$ 3,843,688</b>	<b>\$ 3,063,958</b>		Economic Net Income
▶ Net Unrealized Incentive Fees <sup>(b)</sup>	28,595	(4,759)	(10,149)		
▶ Net Unrealized Carried Interest <sup>(b)</sup>	168,403	(1,282,600)	1,329,924		
▶ Unrealized Investment Income (Loss) <sup>(a)</sup>	20,421	(365,959)	(71,797)		
▶ Add Back: Related Payables <sup>(e)</sup>	74,886	62,943	81,276		
▶ Less: Equity-Based Compensation <sup>(d)</sup>	(79,571)	(103,044)	(48,226)		
<b>Economic Net Income</b>	<b>\$ 2,389,021</b>	<b>\$ 2,150,269</b>	<b>\$ 4,344,986</b>		

- (a) Represents the total segment amounts of the respective captions. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represents the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income, which excludes all transaction-related equity-based charges.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.

The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

(Dollars in Thousands)	2016	2015	2014
Operating Expenses <sup>(a)</sup>	\$ 629,342	\$ 624,357	\$ 553,782
Less: Interest Expense	(197,506)	(175,782)	(132,855)
<b>Non-Interest Operating Expenses</b>	<b>\$ 431,836</b>	<b>\$ 448,575</b>	<b>\$ 420,927</b>
Realized Incentive Fees <sup>(a)</sup>	172,101	194,746	261,745
Less: Realized Incentive Fee Compensation <sup>(a)</sup>	(78,096)	(85,946)	(110,099)
<b>Net Realized Incentive Fees</b>	<b>\$ 94,005</b>	<b>\$ 108,800</b>	<b>\$ 151,646</b>
Realized Carried Interest <sup>(a)</sup>	1,474,915	3,205,876	2,450,596
Less: Realized Carried Interest Compensation <sup>(a)</sup>	(455,954)	(793,800)	(815,643)
<b>Net Realized Carried Interest</b>	<b>\$ 1,018,961</b>	<b>\$ 2,412,076</b>	<b>\$ 1,634,953</b>
Interest Income and Dividend Revenue <sup>(a)</sup>	145,883	131,601	96,344
Less: Interest Expense	(197,506)	(175,782)	(132,855)
<b>Net Interest (Loss)</b>	<b>\$ (51,623)</b>	<b>\$ (44,181)</b>	<b>\$ (36,511)</b>
<b>Equity-Based Compensation<sup>(b)</sup></b>	<b>\$ 79,571</b>	<b>\$ 103,044</b>	<b>\$ 48,226</b>
<b>Taxes and Related Payables<sup>(c)</sup></b>	<b>\$ (167,149)</b>	<b>\$ (90,470)</b>	<b>\$ (280,788)</b>
Unrealized Incentive Fees <sup>(a)</sup>	49,729	(7,249)	(29,425)
Less: Unrealized Incentive Fee Compensation <sup>(a)</sup>	(21,134)	2,490	19,276
<b>Net Unrealized Incentive Fees</b>	<b>\$ 28,595</b>	<b>\$ (4,759)</b>	<b>\$ (10,149)</b>
Unrealized Carried Interest <sup>(a)</sup>	481,241	(1,595,296)	1,708,961
Less: Unrealized Carried Interest Compensation <sup>(a)</sup>	(312,838)	312,696	(379,037)
<b>Net Unrealized Carried Interest</b>	<b>\$ 168,403</b>	<b>\$ (1,282,600)</b>	<b>\$ 1,329,924</b>
<b>Related Payables<sup>(d)</sup></b>	<b>\$ 74,886</b>	<b>\$ 62,943</b>	<b>\$ 81,276</b>

- (a) Represents the total segment amounts of the respective captions. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.
- (b) Represents equity-based award expense included in Economic Income, which excludes all transaction-related equity-based charges.
- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represents the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.

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The following table is a reconciliation of Net Income (Loss) Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

(Dollars in Thousands)	2016	2015	2014
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 1,039,235</b>	<b>\$ 709,789</b>	<b>\$ 1,584,589</b>
Net Income Attributable to Non-Controlling Interests			
in Blackstone Holdings	960,284	683,516	1,701,100
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	246,152	219,900	335,070
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	3,977	11,145	74,794
<b>Net Income</b>	<b>\$ 2,249,648</b>	<b>\$ 1,624,350</b>	<b>\$ 3,695,553</b>
Provision for Taxes	132,362	190,398	291,173
<b>Income Before Provision for Taxes</b>	<b>\$ 2,382,010</b>	<b>\$ 1,814,748</b>	<b>\$ 3,986,726</b>
Transaction Related Charges <sup>(a)</sup>	264,937	489,563	856,382
Amortization of Intangibles <sup>(b)</sup>	84,466	104,530	111,254
(Income) Associated with Non-Controlling Interests of Consolidated Entities <sup>(c)</sup>	(250,129)	(231,045)	(409,864)
<b>Economic Income</b>	<b>\$ 2,481,284</b>	<b>\$ 2,177,796</b>	<b>\$ 4,544,498</b>
Taxes <sup>(d)</sup>	(92,263)	(27,527)	(199,512)
<b>Economic Net Income</b>	<b>\$ 2,389,021</b>	<b>\$ 2,150,269</b>	<b>\$ 4,344,986</b>
Taxes <sup>(d)</sup>	92,263	27,527	199,512
Performance Fee Adjustment <sup>(e)</sup>	(2,177,986)	(1,798,077)	(4,391,877)
Investment (Income) Adjustment <sup>(f)</sup>	(220,290)	(52,849)	(471,628)
Net Interest Loss <sup>(g)</sup>	51,623	44,181	36,511
Performance Fee Compensation and Benefits Adjustment <sup>(h)</sup>	868,022	564,560	1,285,503
<b>Fee Related Earnings</b>	<b>\$ 1,002,653</b>	<b>\$ 935,611</b>	<b>\$ 1,003,007</b>
Net Realized Performance Fees <sup>(i)</sup>	1,112,966	2,520,876	1,786,599
Realized Investment Income <sup>(j)</sup>	199,869	418,808	543,425
Net Interest (Loss) <sup>(d)</sup>	(51,623)	(44,181)	(36,511)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(k)</sup>	(167,149)	(90,470)	(280,788)
Equity-Based Compensation <sup>(l)</sup>	79,571	103,044	48,226
<b>Distributable Earnings</b>	<b>\$ 2,176,287</b>	<b>\$ 3,843,688</b>	<b>\$ 3,063,958</b>
Interest Expense	197,506	175,782	132,855
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(k)</sup>	167,149	90,470	280,788
Depreciation and Amortization	31,971	27,213	32,300
<b>Adjusted EBITDA</b>	<b>\$ 2,572,913</b>	<b>\$ 4,137,153</b>	<b>\$ 3,509,901</b>

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- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's IPO and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with consolidated CLO entities.
- (d) Taxes represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income.
- (g) This adjustment represents Interest Income and Dividend Revenue less Interest Expense.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto. Equals the sum of Net Realized Incentive Fees and Net Realized Carried Interest.
- (j) Represents the adjustment for Blackstone's Realized Investment Income.
- (k) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (l) Represents equity-based award expense included in EI, which excludes all transaction-related equity-based charges.

***Distributions***

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

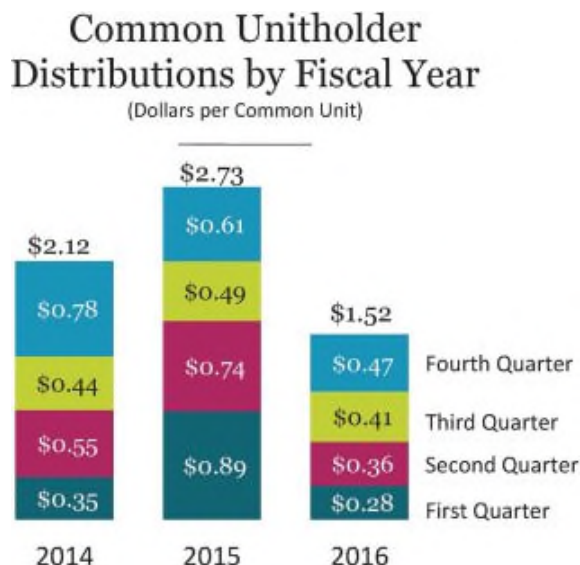
All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders

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in respect of each fiscal year are generally expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

The following graph shows fiscal quarterly and annual per common unitholder distributions for 2014, 2015 and 2016. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.



With respect to fiscal year 2016, we have paid to common unitholders distributions of \$0.28, \$0.36, \$0.41 and \$0.47 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.52 per common unit. With respect to fiscal years 2015 and 2014, we paid aggregate common unitholder distributions of \$2.73 per common unit and \$2.12 per common unit, respectively.

With respect to fiscal year 2016, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.28, \$0.37, \$0.45 and \$0.53 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.63 per Blackstone Holdings Partnership Unit. With respect to fiscal years 2015 and 2014, we paid aggregate distributions of \$2.78 per Blackstone Holdings Partnership Unit and \$2.46 per Blackstone Holdings Partnership Unit, respectively.

**Leverage**

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, we may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles.

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Generally our funds in our private equity segment, our opportunistic, real estate funds, funds of hedge funds and certain credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 1% to 25% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Real Estate debt hedge funds, Hedge Fund Solutions funds and credit-focused funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

The following table presents information regarding these financial instruments in our Consolidated Statements of Financial Condition:

	<u>Reverse Repurchase Agreements</u>	<u>Repurchase Agreements</u>	<u>Securities Sold, Not Yet Purchased</u>
	(Dollars in Millions)		
Balance, December 31, 2016	\$ 118.5	\$ 75.3	\$ 215.4
Balance, December 31, 2015	\$ 204.9	\$ 40.9	\$ 176.7
<b>Year Ended December 31, 2016</b>			
Average Daily Balance	\$ 61.7	\$ 62.3	\$ 146.4
Maximum Daily Balance	\$ 230.9	\$ 94.9	\$ 223.5

### **Critical Accounting Policies**

We prepare our Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.)

### **Principles of Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ("VIE") in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an



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analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to "Part I. Item 1. Business — Incentive Arrangements / Fee Structure" for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain of our hedge fund solutions and credit-focused funds:

- 0.25% to 2.00% of committed capital or invested capital during the investment period,
- 0.50% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital or net asset value subsequent to the investment period for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

- 0.50% to 1.50% of net asset value.

On credit-focused separately managed accounts:

- 0.35% to 1.50% of net asset value.

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On real estate separately managed accounts:

- 0.50% to 2.00% of invested capital, net operating income or net asset value.

On funds of hedge funds and separately managed accounts invested in hedge funds:

- 0.50% to 1.25% of net asset value.

On CLO vehicles:

- 0.40% to 0.65% of the aggregate par amount of collateral assets, including principal cash.

On credit-focused registered and non-registered investment companies:

- 0.35% to 1.50% of total assets or net asset value.

The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments. The investment adviser of our non-exchange traded REIT receives a management fee of 1.25% per annum of net asset value, payable monthly.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ("management fee reductions") by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of transaction-based fee arrangements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone's hedge fund structures ("Incentive Fees") are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds ("carry funds"), performance fees ("Carried Interest") are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to

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the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone carry funds if the Blackstone carry funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### ***Expenses***

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits* — *Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately, and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the

retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

### ***Fair Value of Financial Instruments***

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles and debt securities sold, not yet purchased. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.
- Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate.

Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. For credit-focused investments that are not publicly traded or whose market prices are not readily available, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach. The discounted cash flow method projects the expected cash flows of the debt instrument based on contractual terms, and discounts such cash flows back to the valuation date using a market-based yield. The market-based yield is estimated using yields of publicly traded debt instruments issued by companies operating in similar industries as the subject investment, with similar leverage statistics and time to maturity.

The market approach is generally used to determine the enterprise value of the issuer of a credit investment, and considers valuation multiples of comparable companies or transactions. The resulting enterprise value will dictate whether or not such credit investment has adequate enterprise value coverage. In cases of distressed credit instruments, the market approach may be used to estimate a recovery value in the event of a restructuring.

#### *Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration factors including any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

#### *Investments, at Fair Value*

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, at current market conditions (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology

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for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

The investments of consolidated Blackstone Funds in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

## **Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

Senior management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and senior management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.7 billion as of December 31, 2016 and 2015. At December 31, 2016 and 2015, we determined that there was no evidence of Goodwill impairment.

## **Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing as follows:

- Note 6. "Derivative Financial Instruments",
- Note 9. "Variable Interest Entities", and
- Note 18. "Commitments and Contingencies — Commitments, Operating Leases; — Commitments, Investment Commitments; and — Contingencies, Guarantees."

## **Recent Accounting Developments**

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.



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**Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of December 31, 2016 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

<u>Contractual Obligations</u>	<u>2017</u>	<u>2018-2019</u>	<u>2020-2021</u>	<u>Thereafter</u>	<u>Total</u>
	(Dollars in Thousands)				
Operating Lease Obligations (a)	\$ 73,571	\$ 138,732	\$ 138,869	\$ 414,051	\$ 765,223
Purchase Obligations	26,656	15,476	1,946	—	44,078
Blackstone Issued Notes and Revolving Credit Facility (b)	—	585,000	400,000	2,446,530	3,431,530
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	150,084	300,154	210,890	1,349,717	2,010,845
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	426,136	—	—	5,083,633	5,509,769
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	108,739	206,622	206,622	708,578	1,230,561
Blackstone Funds Capital Commitments to Investee Funds (f)	269,905	—	—	—	269,905
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)	58,470	176,176	179,326	795,137	1,209,109
Unrecognized Tax Benefits, Including Interest and Penalties (h)	6,149	—	—	—	6,149
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	2,466,978	—	—	—	2,466,978
<b>Consolidated Contractual Obligations</b>	<b>3,586,688</b>	<b>1,422,160</b>	<b>1,137,653</b>	<b>10,797,646</b>	<b>16,944,147</b>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(426,136)	—	—	(5,083,633)	(5,509,769)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(108,739)	(206,622)	(206,622)	(708,578)	(1,230,561)
Blackstone Funds Capital Commitments to Investee Funds (f)	(269,905)	—	—	—	(269,905)
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$2,781,908</b>	<b>\$1,215,538</b>	<b>\$ 931,031</b>	<b>\$ 5,005,435</b>	<b>\$ 9,933,912</b>

- (a) We lease our primary office space and certain office equipment under agreements that expire through 2030. In connection with certain office space lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2016, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of

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December 31, 2016, at spreads to market rates pursuant to the financing agreements, and range from 1.0% to 9.4%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's IPO in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 17. "Related Party Transactions" (see "Item 8. Financial Statements and Supplementary Data") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$3.3 million and interest and penalties of \$2.9 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$0.3 million and interest of \$0.4 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

### ***Guarantees***

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 18. "Commitments and Contingencies — Contingencies — Guarantees" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

### ***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2016.

### ***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

For financial reporting purposes, when applicable, the general partners record a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

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As of December 31, 2016, there were no clawback obligations. If, at December 31, 2016, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be \$5.0 billion, on an after tax basis where applicable, of which Blackstone Holdings is potentially liable for \$4.7 billion if current and former Blackstone personnel default on their share of the liability, a possibility that management also views as remote. (See Note 17. “Related Party Transactions” and Note 18. “Commitments and Contingencies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.)

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

**Effect on Fund Management Fees**

Our management fees are based on (a) third parties’ capital commitments to a Blackstone Fund, (b) third parties’ capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund’s life cycle. For the years ended December 31, 2016 and December 31, 2015, the percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	35%	34%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2016 and December 31, 2015, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2016			2015		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 95,264	\$ 1,287,154	\$ 258,041	\$ 85,463	\$ 1,296,886	\$ 250,246

- (a) Represents the annualized effect of the 10% decline.  
(b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	December 31, 2016	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 46,827,216	64%
Real Estate	\$ 68,552,571	82%
Credit	\$ 50,662,606	50%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I. Item 1A. Risk Factors" above. Also see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investments, at Fair Value.") We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

### Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2016 and December 31, 2015, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2016			2015		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 13,196	\$ 259,228	\$ 32,320	\$ 13,464	\$ 270,190	\$ 41,445

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

### Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2016 and December 31, 2015, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	December 31,	
	2016	2015
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 28	\$ 45

Blackstone has a diversified portfolio of liquid assets to meet the liquidity needs of various businesses. This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	December 31,			
	2016		2015	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
	(Dollars in Thousands)			
One Percentage Point Increase in Interest Rates	\$ 11,331	\$ 19,900	\$ 140 (a)	\$ 20,486

(a) As of December 31, 2016 and 2015, this represents 0.2% and 0.0% of our portfolio of liquid assets, respectively.

**Credit Risk**

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

Our portfolio of liquid assets contain certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$ 40,670	\$ 32,182

(a) As of December 31, 2016 and 2015, this represents 0.9% and 0.8% of our portfolio of liquid assets, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Independent Registered Public Accounting Firm**

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2016. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission .

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 24, 2017



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
(Dollars in Thousands, Except Unit Data)

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,837,253	\$ 1,837,324
Cash Held by Blackstone Funds and Other	1,005,161	587,132
Investments (including assets pledged of \$119,139 and \$64,535 at December 31, 2016 and December 31, 2015, respectively)	17,694,975	14,324,097
Accounts Receivable	772,695	613,153
Reverse Repurchase Agreements	118,495	204,893
Due from Affiliates	1,442,378	1,240,797
Intangible Assets, Net	262,604	345,547
Goodwill	1,718,519	1,718,519
Other Assets	264,788	377,189
Deferred Tax Assets	1,286,469	1,277,429
<b>Total Assets</b>	<b>\$ 26,403,337</b>	<b>\$ 22,526,080</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 8,866,366	\$ 6,116,747
Due to Affiliates	1,321,772	1,282,700
Accrued Compensation and Benefits	2,327,762	2,029,918
Securities Sold, Not Yet Purchased	215,398	176,667
Repurchase Agreements	75,324	40,929
Accounts Payable, Accrued Expenses and Other Liabilities	1,081,782	648,662
<b>Total Liabilities</b>	<b>13,888,404</b>	<b>10,295,623</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>185,390</b>	<b>183,459</b>
<b>Partners' Capital</b>		
<b>The Blackstone Group L.P. Partners' Capital</b>		
Partners' Capital (common units: 643,459,542 issued and outstanding as of December 31, 2016; 624,450,162 issued and outstanding as of December 31, 2015)	6,523,929	6,322,307
Accumulated Other Comprehensive Income	(62,887)	(52,519)
<b>Total The Blackstone Group L.P. Partners' Capital</b>	<b>6,461,042</b>	<b>6,269,788</b>
Non-Controlling Interests in Consolidated Entities	2,428,964	2,408,701
Non-Controlling Interests in Blackstone Holdings	3,439,537	3,368,509
<b>Total Partners' Capital</b>	<b>12,329,543</b>	<b>12,046,998</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 26,403,337</b>	<b>\$ 22,526,080</b>

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 740,760	\$ 435,775
Investments	6,459,355	4,558,216
Accounts Receivable	355,364	122,077
Due from Affiliates	21,300	25,561
Other Assets	2,602	12,693
<b>Total Assets</b>	<u>\$ 7,579,381</u>	<u>\$ 5,154,322</u>
<b>Liabilities</b>		
Loans Payable	\$ 5,466,444	\$ 3,319,656
Due to Affiliates	72,609	39,532
Securities Sold, Not Yet Purchased	81,309	58,878
Repurchase Agreements	66,221	31,417
Accounts Payable, Accrued Expenses and Other Liabilities	545,481	226,203
<b>Total Liabilities</b>	<u>\$ 6,232,064</u>	<u>\$ 3,675,686</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Operations**  
(Dollars in Thousands, Except Unit and Per Unit Data)

	Year Ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,442,975	\$ 2,542,505	\$ 2,497,252
Performance Fees			
Realized			
Carried Interest	1,474,830	3,205,290	2,450,082
Incentive Fees	170,537	193,238	249,005
Unrealized			
Carried Interest	481,304	(1,595,174)	1,704,924
Incentive Fees	49,660	(6,688)	(29,749)
Total Performance Fees	<u>2,176,331</u>	<u>1,796,666</u>	<u>4,374,262</u>
Investment Income (Loss)			
Realized	278,737	555,171	523,735
Unrealized	77,314	(350,529)	10,265
Total Investment Income	<u>356,051</u>	<u>204,642</u>	<u>534,000</u>
Interest and Dividend Revenue	95,724	94,957	69,809
Other	54,753	7,782	9,405
<b>Total Revenues</b>	<u>5,125,834</u>	<u>4,646,552</u>	<u>7,484,728</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	1,335,408	1,726,191	1,868,868
Performance Fee Compensation			
Realized			
Carried Interest	455,954	793,801	815,643
Incentive Fees	78,096	85,945	110,099
Unrealized			
Carried Interest	312,838	(312,696)	379,037
Incentive Fees	21,134	(2,490)	(19,276)
Total Compensation and Benefits	<u>2,203,430</u>	<u>2,290,751</u>	<u>3,154,371</u>
General, Administrative and Other	520,309	576,103	549,463
Interest Expense	152,654	144,522	121,524
Fund Expenses	52,181	79,499	30,498
<b>Total Expenses</b>	<u>2,928,574</u>	<u>3,090,875</u>	<u>3,855,856</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	—	82,707	—
Net Gains from Fund Investment Activities	184,750	176,364	357,854
<b>Total Other Income</b>	<u>184,750</u>	<u>259,071</u>	<u>357,854</u>
<b>Income Before Provision for Taxes</b>	<u>2,382,010</u>	<u>1,814,748</u>	<u>3,986,726</u>
<b>Provision for Taxes</b>	<u>132,362</u>	<u>190,398</u>	<u>291,173</u>
<b>Net Income</b>	<u>2,249,648</u>	<u>1,624,350</u>	<u>3,695,553</u>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	3,977	11,145	74,794
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	246,152	219,900	335,070
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	960,284	683,516	1,701,100
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,039,235</u>	<u>\$ 709,789</u>	<u>\$ 1,584,589</u>
<b>Net Income Per Common Unit</b>			
Common Units, Basic	\$ 1.60	\$ 1.12	\$ 2.60
Common Units, Diluted	\$ 1.56	\$ 1.04	\$ 2.58
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	649,475,264	634,337,179	608,803,111
Common Units, Diluted	<u>1,195,114,590</u>	<u>1,188,085,411</u>	<u>613,176,405</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	\$ 185,769	\$ 210,672	\$ 327,134

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in Thousands)**

	Year Ended December 31,		
	2016	2015	2014
Net Income	\$ 2,249,648	\$ 1,624,350	\$ 3,695,553
Other Comprehensive Loss, Net of Tax — Currency Translation Adjustment	(22,194)	(49,238)	(57,924)
Comprehensive Income	2,227,454	1,575,112	3,637,629
Less:			
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	3,977	11,145	74,794
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	234,326	202,318	301,477
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	960,284	683,516	1,701,100
Comprehensive Income Attributable to The Blackstone Group L.P.	<u>\$ 1,028,867</u>	<u>\$ 678,133</u>	<u>\$ 1,560,258</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>					Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total				
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 6,306,766	\$ 2,464,047	\$ 3,656,416	\$12,427,229	\$ 1,950,442
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	8,398	—	8,398	—	—	8,398	—
Consolidation of Fund Entity	—	—	—	—	—	323,158	—	323,158	30,922
Net Income	—	1,584,589	—	—	1,584,589	335,070	1,701,100	3,620,759	74,794
Allocation of Losses of Consolidated CLO Entities	—	—	(111,723)	—	(111,723)	111,723	—	—	—
Currency Translation Adjustment	—	—	—	(24,330)	(24,330)	(33,594)	—	(57,924)	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	(33,594)	—	(33,594)	33,594	—	—	—
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities	—	(611)	—	—	(611)	—	—	(611)	—
Capital Contributions	—	—	—	—	—	760,357	—	760,357	851,658
Capital Distributions	—	(1,148,139)	—	—	(1,148,139)	(577,032)	(1,200,457)	(2,925,628)	(465,962)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	—	(1,885)	—	(1,885)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(6)	—	—	(6)	—	—	(6)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	22,982	—	—	22,982	—	—	22,982	—
Equity-Based Compensation	—	421,363	—	—	421,363	—	386,703	808,066	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(82,488)	—	(82,488)	(82)	—	(82,570)	—
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,407,733	(35,469)	—	—	(35,469)	—	(783)	(36,252)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	—	25,620	—	—	25,620	—	—	25,620	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	9,032	—	—	9,032	—	(9,032)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	16,624,843	117,877	—	—	117,877	—	(117,877)	—	—
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$14,891,693	\$ 2,441,854

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>								
	<u>Common Units</u>	<u>Partners' Capital</u>	<u>Appropriated Partners' Capital</u>	<u>Accumulated Other Compre- hensive (Loss)</u>	<u>Total</u>	<u>Non- Controlling Interests in Consolidated Entities</u>	<u>Non- Controlling Interests in Blackstone Holdings</u>	<u>Total Partners' Capital</u>	<u>Redeemable Non- Controlling Interests in Consolidated Entities</u>
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$14,891,693	\$ 2,441,854
Deconsolidation of CLOs and Funds on Adoption of ASU 2015-02	—	—	(90,928)	—	(90,928)	(1,002,728)	—	(1,093,656)	(2,258,289)
Adjustment to Appropriated Partners' Capital on Adoption of ASU 2014-13	—	—	9,627	—	9,627	—	—	9,627	—
Net Income	—	709,789	—	—	709,789	219,900	683,516	1,613,205	11,145
Currency Translation Adjustment	—	—	—	(31,655)	(31,655)	(39,475)	—	(71,130)	—
Capital Contributions	—	—	—	—	—	491,456	—	491,456	2,357
Capital Distributions	—	(1,812,602)	—	—	(1,812,602)	(663,536)	(1,684,744)	(4,160,882)	(13,608)
Distributions Associated with the Spin-Off	—	(232,034)	—	—	(232,034)	—	(135,204)	(367,238)	—
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	—	(12,272)	—	(12,272)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	65,027	—	—	65,027	—	—	65,027	—
Equity-Based Compensation	—	356,440	—	—	356,440	—	315,442	671,882	—
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	12,180,703	(59,128)	—	—	(59,128)	—	(1,903)	(61,031)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	—	70,317	—	—	70,317	—	—	70,317	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	92,785	—	—	92,785	—	(92,785)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	16,644,604	131,883	—	—	131,883	—	(131,883)	—	—
<b>Balance at December 31, 2015</b>	624,450,162	\$ 6,322,307	\$ —	\$ (52,519)	\$ 6,269,788	\$ 2,408,701	\$ 3,368,509	\$12,046,998	\$ 183,459

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>							
	<u>Common Units</u>	<u>Partners' Capital</u>	<u>Accumulated Other Compre- hensive (Loss)</u>	<u>Total</u>	<u>Non- Controlling Interests in Consolidated Entities</u>	<u>Non- Controlling Interests in Blackstone Holdings</u>	<u>Total Partners' Capital</u>	<u>Redeemable Non- Controlling Interests in Consolidated Entities</u>
<b>Balance at December 31, 2015</b>	624,450,162	\$ 6,322,307	\$ (52,519)	\$ 6,269,788	\$ 2,408,701	\$ 3,368,509	\$12,046,998	\$ 183,459
Net Income	—	1,039,235	—	1,039,235	246,152	960,284	2,245,671	3,977
Currency Translation Adjustment	—	—	(10,368)	(10,368)	(11,826)	—	(22,194)	—
Capital Contributions	—	—	—	—	324,630	—	324,630	15,000
Capital Distributions	—	(1,068,017)	—	(1,068,017)	(530,415)	(950,652)	(2,549,084)	(17,046)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(8,278)	—	(8,278)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	5,369	—	5,369	—	—	5,369	—
Equity-Based Compensation	—	166,206	—	166,206	—	147,848	314,054	—
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,241,282	(26,572)	—	(26,572)	—	(1,051)	(27,623)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	7,881	—	7,881	—	(7,881)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	12,768,098	77,520	—	77,520	—	(77,520)	—	—
<b>Balance at December 31, 2016</b>	<u>643,459,542</u>	<u>\$ 6,523,929</u>	<u>\$ (62,887)</u>	<u>\$ 6,461,042</u>	<u>\$ 2,428,964</u>	<u>\$ 3,439,537</u>	<u>\$12,329,543</u>	<u>\$ 185,390</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
**(Dollars in Thousands)**

	Year Ended December 31,		
	2016	2015	2014
<b>Operating Activities</b>			
Net Income	\$ 2,249,648	\$ 1,624,350	\$ 3,695,553
Adjustments to Reconcile Net Income to Net Cash Provided by (Used In) Operating Activities			
Unrealized (Appreciation) Depreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(261,338)	356,170	(430,738)
Net Realized Gains on Investments	(2,023,503)	(4,121,003)	(3,343,635)
Changes in Unrealized Losses on Investments Allocable to The Blackstone Group L.P.	19,721	365,894	83,140
Non-Cash Performance Fees	(305,559)	1,391,946	(1,317,707)
Non-Cash Performance Fee Compensation	868,022	564,560	1,285,503
Equity-Based Compensation Expense	323,651	629,642	734,733
Excess Tax Benefits Related to Equity-Based Compensation		(70,318)	(25,646)
Amortization of Intangibles	82,943	101,437	101,915
Other Non-Cash Amounts Included in Net Income	16,711	144,657	121,808
Cash Flows Due to Changes in Operating Assets and Liabilities			
Cash Held by Blackstone Funds and Other	(452,108)	1,220,959	(390,092)
Cash Relinquished with Deconsolidation and Liquidation of Partnership	—	(442,370)	(476,533)
Accounts Receivable	87,074	(213,706)	229,331
Reverse Repurchase Agreements	86,398	(204,893)	148,984
Due from Affiliates	(57,907)	(97,487)	229,837
Other Assets	99,108	(149,732)	(82,890)
Accrued Compensation and Benefits	(572,814)	(917,428)	(836,852)
Securities Sold, Not Yet Purchased	42,761	96,780	(144,383)
Accounts Payable, Accrued Expenses and Other Liabilities	(214,651)	(474,652)	(305,978)
Repurchase Agreements	34,286	11,012	(325,199)
Due to Affiliates	39,035	(102,847)	35,504
Investments Purchased	(8,798,358)	(7,937,114)	(10,979,846)
Cash Proceeds from Sale of Investments	8,195,594	10,621,186	13,648,180
Net Cash Provided by (Used in) Operating Activities	<u>(541,286)</u>	<u>2,397,043</u>	<u>1,654,989</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(21,826)	(59,247)	(30,271)
Changes in Restricted Cash	(7,150)	5,843	5,846
Net Cash Used in Investing Activities	<u>(28,976)</u>	<u>(53,404)</u>	<u>(24,425)</u>

continued...

See notes to consolidated financial statements.



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2016	2015	2014
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (533,925)	\$ (677,110)	\$ (982,405)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	329,005	479,678	1,560,183
Purchase of Interests from Certain Non-Controlling Interest Holders	—	—	(6)
Cash Relinquished in Conjunction with the Spin-Off	—	(55,412)	—
Payments Under Tax Receivable Agreement	(78,985)	(84,484)	(86,733)
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(27,623)	(61,031)	(36,252)
Excess Tax Benefits Related to Equity-Based Compensation	—	70,318	25,646
Proceeds from Loans Payable	3,321,081	2,423,614	2,635,540
Repayment and Repurchase of Loans Payable	(420,714)	(517,629)	(1,817,284)
Distributions to Unitholders	(2,018,669)	(3,497,346)	(2,348,596)
Net Cash Provided by (Used in) Financing Activities	570,170	(1,919,402)	(1,049,907)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	21	615	(183)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(71)	424,852	580,474
Cash and Cash Equivalents, Beginning of Period	1,837,324	1,412,472	831,998
Cash and Cash Equivalents, End of Period	<u>\$ 1,837,253</u>	<u>\$ 1,837,324</u>	<u>\$ 1,412,472</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	\$ 151,948	\$ 126,167	\$ 116,296
Payments for Income Taxes	\$ 65,790	\$ 115,814	\$ 236,718
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 1,155	\$ 2,277	\$ 47,683
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (13,536)	\$ (34)	\$ (60,589)
Net Assets Associated with the Spin-Off	\$ —	\$ (311,826)	\$ —
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ —	\$ (295)	\$ 16,181
Net Assets Related to the Consolidation of CLO Vehicles	\$ —	\$ —	\$ 8,398
Net Assets Related to the Consolidation of Certain Fund Entities	\$ —	\$ —	\$ 354,080
Notes Issuance Costs	\$ 5,491	\$ 5,269	\$ 4,375
Transfer of Interests to Non-Controlling Interest Holders	\$ (8,278)	\$ (12,272)	\$ (1,885)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ 7,881	\$ 92,785	\$ 9,032
Net Settlement of Vested Common Units	\$ 101,898	\$ 139,941	\$ 69,426
Conversion of Blackstone Holdings Units to Common Units	\$ 77,520	\$ 131,883	\$ 117,877
Acquisition of Ownership Interests from Non-Controlling Interest Holders			
Deferred Tax Asset	\$ (59,304)	\$ (195,291)	\$ (105,686)
Due to Affiliates	\$ 53,935	\$ 130,264	\$ 82,704
Partners' Capital	\$ 5,369	\$ 65,027	\$ 22,982

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries (“Blackstone” or the “Partnership”), is a leading global manager of private capital. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts (“REITs”), funds of hedge funds, hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, separately managed accounts and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone’s business is organized into four segments: private equity, real estate, hedge fund solutions and credit.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone’s founders, Stephen A. Schwarzman (the “Founder”), and Blackstone’s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings AI L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, “Blackstone Holdings”, “Blackstone Holdings Partnerships” or the “Holding Partnerships”). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the Holding Partnerships may, four times each year, exchange their limited partnership interests (“Partnership Units”) for Blackstone common units, on a one-to-one basis, exchanging one Partnership Unit from each of the Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of the Partnership, its wholly owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Consolidated Statements of Cash Flows.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Such estimates include those used in the valuation of investments and financial instruments and the accounting for Goodwill and equity-based compensation. Actual results could differ from those estimates and such differences could be material.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

Blackstone’s other disclosures regarding VIEs are discussed in Note 9. “Variable Interest Entities”.

**Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of transaction-based fee arrangements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“carry funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone carry funds if the Blackstone carry funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles and debt securities sold, not yet purchased. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.
- Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (“cap rates”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment’s fair value.

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. For credit-focused investments that are not publicly traded or whose market prices are not readily available, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach. The discounted cash flow method projects the expected cash flows of the debt instrument based on contractual terms, and discounts such cash flows back to the valuation date using a market-based yield. The market-based yield is estimated using yields of publicly traded debt instruments issued by companies operating in similar industries as the subject investment, with similar leverage statistics and time to maturity.

The market approach is generally used to determine the enterprise value of the issuer of a credit investment, and considers valuation multiples of comparable companies or transactions. The resulting enterprise value will dictate whether or not such credit investment has adequate enterprise value coverage. In cases of distressed credit instruments, the market approach may be used to estimate a recovery value in the event of a restructuring.

*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration factors including any changes in Blackstone’s weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone’s investments are reviewed quarterly by a valuation committee chaired by Blackstone’s Vice Chairman and includes senior heads of each of Blackstone’s businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone’s investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the “Portfolio Companies”), at fair value. Such consolidated funds’ investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, at current market conditions (i.e., the exit price).

Blackstone’s principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners’ Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners’ Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners’ Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.



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Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. “Fair Value Option” to the Consolidated Financial Statements.

The investments of consolidated Blackstone Funds in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee’s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee’s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. “Net Asset Value as Fair Value”.

Security and loan transactions are recorded on a trade date basis.

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership’s share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership’s equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership’s equity method investments approximates fair value.

**Cash and Cash Equivalents**

Cash and Cash Equivalents represents cash on hand, cash held in banks, money market funds and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

**Cash Held by Blackstone Funds and Other**

Cash Held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, receivables relating to unsettled

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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sale transactions and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectability. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally ten to fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

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**Notes to Consolidated Financial Statements—Continued**  
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**Comprehensive Income**

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

**Redeemable Non-Controlling Interests in Consolidated Entities**

Non-controlling interests related to funds of hedge funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

**Non-Controlling Interests in Blackstone Holdings**

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

**Compensation and Benefits**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing

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**Notes to Consolidated Financial Statements—Continued**

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directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately, and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone’s firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

**Other Income**

Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds’ investments.

Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

Other Income also includes amounts attributable to the Reversal of the Tax Receivable Agreement Liability. See Note 14. “Income Taxes — Other Income — Reversal of the Tax Receivable Agreement Liability” for additional information.

**Income Taxes**

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership’s share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

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**Notes to Consolidated Financial Statements—Continued**  
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Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

**Net Income (Loss) Per Common Unit**

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to The Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprised primarily of U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from reverse repurchase agreements and repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty’s rights and obligations.

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Consolidated Statements of Financial Condition. Additional disclosures relating to reverse repurchase and repurchase agreements are discussed in Note 10. “Reverse Repurchase and Repurchase Agreements”.

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 12. “Offsetting of Assets and Liabilities”.

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to “cover” its short sale in the future by purchasing the security at prevailing

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market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (“fair value hedge”), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (“freestanding derivative”). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings. Gains or losses on a derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation are reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership’s evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. For net investment hedges, the Partnership uses a method based on changes in spot rates to measure effectiveness. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair values of hedging derivative instruments are reflected within Other Assets in the Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Consolidated Statements of Operations. The fair value of freestanding derivative assets of the consolidated Blackstone Funds are recorded within Investments, the fair value of freestanding derivative assets that are not part of the consolidated Blackstone Funds are recorded within Other Assets and the fair value of freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty’s rights and obligations.

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**Notes to Consolidated Financial Statements—Continued**  
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Blackstone’s other disclosures regarding derivative financial instruments are discussed in Note 6. “Derivative Financial Instruments”.

Blackstone’s disclosures regarding offsetting are discussed in Note 12. “Offsetting of Assets and Liabilities”.

**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the consolidated financial statements when declared.

**Recent Accounting Developments**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract.

In August 2015, the FASB issued new guidance deferring the effective date of the new revenue recognition standard by one year. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

Blackstone has concluded that capital allocation-based Performance Fees (“Capital Allocation-Based Arrangements”) represent equity method investments that are not in the scope of the amended revenue recognition guidance. Therefore, effective January 1, 2018, Blackstone will amend the recognition and measurement of Capital Allocation-Based Arrangements. This accounting change will not change the timing or amount of revenue recognized related to Capital Allocation-Based Arrangements. These amounts are currently recognized within Realized and Unrealized Performance Fees — Carried Interest and Incentive Fees in the Consolidated Statements of Operations. Under the equity method of accounting Blackstone will recognize its allocations of Carried Interest or Incentive Fees within Investment Income along with the allocations proportionate to Blackstone’s ownership interests in the Blackstone Funds. Blackstone will apply a retrospective application and prior periods shall be restated. The impact of adoption is a reclassification of Carried Interest to Investment Income. This change will

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have no impact on Net Income Attributable to The Blackstone Group L.P. Blackstone has concluded that the majority of its Incentive Fees are not part of a Capital Allocation-Based Arrangement (“Contractual Incentive Fees”), and are within the scope of the amended revenue recognition guidance. This accounting change will delay recognition of Contractual Incentive Fees compared to our current accounting treatment, and it is not expected to have a material impact on Blackstone’s financial statements.

The Partnership is evaluating the impact of the amended revenue recognition guidance on other revenue streams including management fees and considerations for reporting revenue gross versus net.

In February 2016, the FASB issued amended guidance on the accounting for leases. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP.

For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statement of Financial Condition, (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (c) classify all cash payments within operating activities in the statement of cash flows.

The guidance is effective for fiscal periods beginning after December 15, 2018. Early application is permitted. Blackstone is evaluating the impact of the amended guidance on the Consolidated Statement of Financial Condition. It is not expected to have a material impact on the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows.

In March 2016, the FASB issued amended guidance on stock compensation. The amendments simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and accounting for forfeitures (the amended guidance permits an entity to make an accounting policy election either to estimate the number of forfeitures expected to occur or to account for forfeitures when they occur). The amendments require all excess tax benefits and deficiencies related to share-based payment transactions to be recognized through the Provision for Taxes in the Consolidated Statement of Operations. The amendments also require excess tax benefits related to share-based payment transactions to be presented as operating activities in the Consolidated Statement of Cash Flows with employee taxes paid presented as a financing activity. The guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Blackstone has elected to early adopt the guidance for the quarter ended June 30, 2016 and any adjustments have been reflected prospectively as of January 1, 2016.

Blackstone has made an accounting policy election to continue estimating forfeitures in determining the number of equity-based awards that are expected to vest. Amendments relating to the recognition of excess tax benefits and deficiencies in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows have been applied prospectively. As a result, prior period amounts have not been restated. Application of the guidance did not have a material impact on Blackstone’s Consolidated Statement of Operations or Consolidated Statement of Cash Flows.

In October 2016, the FASB issued amended guidance on consolidation. The amendments do not change the characteristics of a primary beneficiary, however, in evaluating whether an entity has the obligation to absorb losses



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**Notes to Consolidated Financial Statements—Continued**

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or receive benefits from the VIE that could potentially be significant to the VIE, an entity is now required to evaluate all indirect interests, including those held by a party under common control, on a proportionate basis. The guidance is effective for fiscal years beginning after December 15, 2016. The guidance is not expected to have a material impact on Blackstone’s financial statements.

**3. GOODWILL AND INTANGIBLE ASSETS**

The carrying value of goodwill was \$1.7 billion as of December 31, 2016 and 2015. At December 31, 2016 and 2015, the Partnership determined there was no evidence of Goodwill impairment.

At December 31, 2016 and 2015, goodwill has been allocated to each of the Partnership’s four segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), and Credit (\$346.4 million).

Intangible Assets, Net consists of the following:

	December 31,	
	2016	2015
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,400,876	\$ 1,424,226
Accumulated Amortization	(1,138,272)	(1,078,679)
Intangible Assets, Net	<u>\$ 262,604</u>	<u>\$ 345,547</u>

Changes in the Partnership’s Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2016	2015	2014
Balance, Beginning of Year	\$ 345,547	\$ 458,833	\$ 560,748
Amortization Expense	(82,943)	(101,437)	(101,915)
Intangibles Transferred to PJT Partners Inc. at Spin-Off	—	(11,849)	—
Balance, End of Year	<u>\$ 262,604</u>	<u>\$ 345,547</u>	<u>\$ 458,833</u>

Amortization of Intangible Assets held at December 31, 2016 is expected to be \$43.9 million, \$43.8 million, \$43.8 million, \$43.8 million, and \$43.8 million for each of the years ending December 31, 2017, 2018, 2019, 2020, and 2021, respectively. Blackstone’s intangible assets as of December 31, 2016 are expected to amortize over a weighted-average period of 6.1 years.

**4. INVESTMENTS**

Investments consist of the following:

	December 31,	
	2016	2015
Investments of Consolidated Blackstone Funds	\$ 6,480,674	\$ 4,613,944
Equity Method Investments	3,092,378	3,110,810
Corporate Treasury Investments	2,518,438	1,682,259
Performance Fees	5,320,994	4,757,932
Other Investments	282,491	159,152
	<u>\$ 17,694,975</u>	<u>\$ 14,324,097</u>

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Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$384.4 million and \$451.9 million at December 31, 2016 and December 31, 2015, respectively.

**Investments of Consolidated Blackstone Funds**

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income (Loss) — Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2016	2015	2014
Realized Gains	\$ 123,524	\$ 223,078	\$ 143,194
Net Change in Unrealized Losses	(61,045)	(161,398)	(20,127)
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	62,479	61,680	123,067
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	122,271	114,684	234,787
Other Income — Net Gains from Fund Investment Activities	<u>\$ 184,750</u>	<u>\$ 176,364</u>	<u>\$ 357,854</u>

**Equity Method Investments**

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended December 31, 2016, 2015 and 2014, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, "Pátria") and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$214.4 million, \$82.2 million and \$297.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The summarized financial information of the Partnership's equity method investments for December 31, 2016 are as follows:

	December 31, 2016 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 49,751,021	\$ 62,370,093	\$ 21,007,134	\$ 17,804,292	\$ 7,354	\$ 150,939,894
Other Assets	2,815,042	4,384,031	2,434,590	1,478,119	173,917	11,285,699
Total Assets	<u>\$ 52,566,063</u>	<u>\$ 66,754,124</u>	<u>\$ 23,441,724</u>	<u>\$ 19,282,411</u>	<u>\$ 181,271</u>	<u>\$ 162,225,593</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 3,715,079	\$ 4,034,184	\$ 73,915	\$ 2,495,778	\$ —	\$ 10,318,956
Other Liabilities	1,254,211	1,591,727	1,837,583	701,986	51,266	5,436,773
Total Liabilities	4,969,290	5,625,911	1,911,498	3,197,764	51,266	15,755,729
Partners' Capital	47,596,773	61,128,213	21,530,226	16,084,647	130,005	146,469,864
Total Liabilities and Partners' Capital	<u>\$ 52,566,063</u>	<u>\$ 66,754,124</u>	<u>\$ 23,441,724</u>	<u>\$ 19,282,411</u>	<u>\$ 181,271</u>	<u>\$ 162,225,593</u>
<b>Statement of Operations</b>						
Interest Income	\$ 353,179	\$ 445,166	\$ 439	\$ 849,508	\$ —	\$ 1,648,292
Other Income	10,620	1,499,503	35,264	32,628	104,669	1,682,684
Interest Expense	(82,370)	(141,097)	(1,410)	(157,921)	—	(382,798)
Other Expenses	(473,790)	(605,538)	(150,964)	(224,345)	(56,407)	(1,511,044)
Net Realized and Unrealized Gain from Investments	4,870,332	5,368,361	226,368	1,186,038	515	11,651,614
Net Income	<u>\$ 4,677,971</u>	<u>\$ 6,566,395</u>	<u>\$ 109,697</u>	<u>\$ 1,685,908</u>	<u>\$ 48,777</u>	<u>\$ 13,088,748</u>

- (a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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The summarized financial information of the Partnership's equity method investments for December 31, 2015 are as follows:

	December 31, 2015 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 48,210,598	\$ 61,971,919	\$ 21,858,491	\$ 16,136,543	\$ 11,577	\$ 148,189,128
Other Assets	1,041,591	6,210,557	1,927,535	1,174,601	53,825	10,408,109
Total Assets	<u>\$ 49,252,189</u>	<u>\$ 68,182,476</u>	<u>\$ 23,786,026</u>	<u>\$ 17,311,144</u>	<u>\$ 65,402</u>	<u>\$ 158,597,237</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 2,178,261	\$ 5,562,806	\$ 275,068	\$ 2,086,670	\$ —	\$ 10,102,805
Other Liabilities	1,315,572	1,573,370	1,462,072	956,305	52,269	5,359,588
Total Liabilities	<u>3,493,833</u>	<u>7,136,176</u>	<u>1,737,140</u>	<u>3,042,975</u>	<u>52,269</u>	<u>15,462,393</u>
Partners' Capital	45,758,356	61,046,300	22,048,886	14,268,169	13,133	143,134,844
Total Liabilities and Partners' Capital	<u>\$ 49,252,189</u>	<u>\$ 68,182,476</u>	<u>\$ 23,786,026</u>	<u>\$ 17,311,144</u>	<u>\$ 65,402</u>	<u>\$ 158,597,237</u>
<b>Statement of Operations</b>						
Interest Income	\$ 384,174	\$ 361,249	\$ 170	\$ 533,591	\$ —	\$ 1,279,184
Other Income	8,506	1,313,956	35,112	49,042	84,975	1,491,591
Interest Expense	(33,416)	(91,985)	(3,228)	(61,971)	—	(190,600)
Other Expenses	(278,911)	(355,617)	(125,393)	(167,385)	(45,203)	(972,509)
Net Realized and Unrealized Gain from Investments	3,272,934	3,740,127	449,930	(954,692)	17,778	6,526,077
Net Income	<u>\$ 3,353,287</u>	<u>\$ 4,967,730</u>	<u>\$ 356,591</u>	<u>\$ (601,415)</u>	<u>\$ 57,550</u>	<u>\$ 8,133,743</u>

- (a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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The summarized financial information of the Partnership's equity method investments for December 31, 2014 are as follows:

	December 31, 2014 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 43,005,350	\$ 59,117,360	\$ 15,947,483	\$ 14,611,539	\$ 19,594	\$ 132,701,326
Other Assets	667,131	3,213,450	1,411,406	1,751,967	53,551	7,097,505
Total Assets	<u>\$ 43,672,481</u>	<u>\$ 62,330,810</u>	<u>\$ 17,358,889</u>	<u>\$ 16,363,506</u>	<u>\$ 73,145</u>	<u>\$ 139,798,831</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 836,667	\$ 3,645,998	\$ 20,550	\$ 1,254,774	\$ —	\$ 5,757,989
Other Liabilities	100,362	617,101	919,013	827,469	24,937	2,488,892
Total Liabilities	<u>937,029</u>	<u>4,263,099</u>	<u>939,563</u>	<u>2,082,243</u>	<u>24,937</u>	<u>8,246,871</u>
Partners' Capital	42,735,452	58,067,711	16,419,326	14,281,263	48,208	131,551,960
Total Liabilities and Partners' Capital	<u>\$ 43,672,481</u>	<u>\$ 62,330,810</u>	<u>\$ 17,358,889</u>	<u>\$ 16,363,506</u>	<u>\$ 73,145</u>	<u>\$ 139,798,831</u>
<b>Statement of Operations</b>						
Interest Income	\$ 406,255	\$ 260,683	\$ 483	\$ 567,008	\$ 1	\$ 1,234,430
Other Income	21,305	1,030,685	125,441	52,207	118,835	1,348,473
Interest Expense	(61,855)	(89,842)	(271)	(86,957)	(153)	(239,078)
Other Expenses	(97,073)	(249,095)	(103,787)	(177,968)	(71,297)	(699,220)
Net Realized and Unrealized Gain from Investments	8,567,193	10,441,009	547,982	643,080	3,263	20,202,527
Net Income	<u>\$ 8,835,825</u>	<u>\$ 11,393,440</u>	<u>\$ 569,848</u>	<u>\$ 997,370</u>	<u>\$ 50,649</u>	<u>\$ 21,847,132</u>

- (a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**Corporate Treasury Investments**

The portion of corporate treasury investments included in Investments represents the Partnership's investments into primarily fixed income securities, mutual fund interests, and other fund interests. These strategies are managed by a combination of Blackstone personnel and third party advisors. The following table presents the Realized and Net Change in Unrealized Gains (Losses) on these investments:

	Year Ended December 31,		
	2016	2015	2014
Realized Gains (Losses)	\$(20,263)	\$(15,525)	\$11,689
Net Change in Unrealized Gains (Losses)	19,671	(35,709)	2,002
	<u>\$ (592)</u>	<u>\$(51,234)</u>	<u>\$13,691</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Performance Fees**

Performance Fees allocated to the general partner in respect of performance of certain carry funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2015	\$1,479,443	\$ 3,101,688	\$ 9,747	\$167,054	\$ 4,757,932
Performance Fees Allocated as a Result of Changes in Fund Fair Values	671,240	1,115,487	12,206	248,969	2,047,902
Foreign Exchange Loss	—	(23,570)	—	—	(23,570)
Fund Distributions	(165,891)	(1,223,157)	(15,821)	(56,401)	(1,461,270)
Performance Fees, December 31, 2016	<u>\$1,984,792</u>	<u>\$ 2,970,448</u>	<u>\$ 6,132</u>	<u>\$359,622</u>	<u>\$ 5,320,994</u>

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's Realized and Net Change in Unrealized Gains (Losses) in other investments:

	Year Ended December 31,		
	2016	2015	2014
Realized Gains	\$ 2,495	\$ 80	\$ 5,082
Net Change in Unrealized Gains (Losses)	11,128	(4,079)	(6,309)
	<u>\$13,623</u>	<u>\$(3,999)</u>	<u>\$(1,227)</u>

**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2016 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$164,943	\$ 129	(a)	(a)
Credit Driven	203,837	268	(b)	(b)
Equity	59,268	—	(c)	(c)
Commodities	2,062	—	(d)	(d)
	<u>\$430,110</u>	<u>\$ 397</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 4% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 96% of investments in this category are redeemable as of the reporting date.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 44% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 56% of investments in this category are redeemable as of the reporting date.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (c) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (d) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Net Investment Hedges**

To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone's net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone's non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Loss, Net of Tax — Currency Translation Adjustment. For the year ended December 31, 2016 the resulting gain was \$2.2 million.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

**THE BLACKSTONE GROUP L.P.**
**Notes to Consolidated Financial Statements—Continued**
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	December 31, 2016				December 31, 2015			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ —	\$ —	\$ 51,267	\$ 587	\$ 53,627	\$ 319	\$ 138	\$ 1
<b>Freestanding Derivatives</b>								
Blackstone								
Interest Rate Contracts	2,651,583	2,356	546,211	2,355	1,681,533	2,212	1,054,465	4,288
Foreign Currency Contracts	164,247	1,037	127,444	966	158,684	2,088	271,891	2,042
Credit Default Swaps	—	—	3,819	215	—	—	19,250	2,411
Investments of Consolidated								
Blackstone Funds								
Foreign Currency Contracts	254,162	25,050	136,025	3,903	124,595	1,400	92,094	6,490
Credit Default Swaps	—	—	113,057	3,350	—	—	108,786	6,275
	<u>3,069,992</u>	<u>28,443</u>	<u>926,556</u>	<u>10,789</u>	<u>1,964,812</u>	<u>5,700</u>	<u>1,546,486</u>	<u>21,506</u>
Total	<u>\$3,069,992</u>	<u>\$28,443</u>	<u>\$977,823</u>	<u>\$11,376</u>	<u>\$2,018,439</u>	<u>\$6,019</u>	<u>\$1,546,624</u>	<u>\$21,507</u>

The table below summarizes the impact to the Consolidated Statements of Operations from derivative financial instruments:

	Year Ended December 31,		
	2016	2015	2014
<b>Net Investment Hedges — Foreign Currency Contracts</b>			
Hedge Ineffectiveness	\$ (108)	\$ 283	\$ —
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$ (1,600)	\$ (8,716)	\$ (1,012)
Foreign Currency Contracts	(5,079)	12,828	8,251
Credit Default Swaps	(5,141)	2,336	1,363
	<u>(11,820)</u>	<u>6,448</u>	<u>8,602</u>
Net Change in Unrealized Gains (Losses)			
Interest Rate Contracts	1,253	3,933	(7,757)
Foreign Currency Contracts	25,839	(7,930)	(31,728)
Credit Default Swaps	(3,027)	(7,518)	5,193
	<u>24,065</u>	<u>(11,515)</u>	<u>(34,292)</u>
Total	<u>\$ 12,245</u>	<u>\$ (5,067)</u>	<u>\$ (25,690)</u>



**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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Since the inception of the above mentioned fair value hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment is being accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2016, 2015 and 2014, the Partnership had not designated any derivatives as cash flow hedges.

**7. FAIR VALUE OPTION**

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

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Loans and Receivables	\$ 211,359	\$ 261,994
Equity and Preferred Securities	444,713	280,879
Debt Securities	—	15,176
Assets of Consolidated CLO Vehicles		
Corporate Loans	4,762,071	3,087,563
Corporate Bonds	710,947	379,000
	<u>\$ 6,129,090</u>	<u>\$ 4,024,612</u>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 5,125,804	\$ 3,225,064
Subordinated Notes		
Loans Payable	337,846	90,140
Due to Affiliates	7,748	8,231
	<u>\$ 5,471,398</u>	<u>\$ 3,323,435</u>

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**Notes to Consolidated Financial Statements—Continued**  
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The following table presents the Realized and Net Change in Unrealized Gains (Losses) on financial instruments on which the fair value option was elected:

	Year Ended December 31,					
	2016		2015		2014	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ (42)	\$ 3,375	\$ —	\$ (4,793)	\$ (1,703)	\$ (3,022)
Equity and Preferred Securities	(476)	16,033	(300)	(17,269)	(2,038)	6,885
Debt Securities	(2,404)	426	—	(426)	—	—
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans	(6,128)	66,601	(1,895)	(36,502)	(77,041)	(28,054)
Corporate Bonds	4,793	18,859	(551)	1,188	(1,405)	(7,931)
Other	264	—	4,431	(3,589)	22,625	17,649
	<u>\$ (3,993)</u>	<u>\$ 105,294</u>	<u>\$ 1,685</u>	<u>\$ (61,391)</u>	<u>\$ (59,562)</u>	<u>\$ (14,473)</u>
<b>Liabilities</b>						
<b>Liabilities of Consolidated CLO Vehicles</b>						
Senior Secured Notes	\$ —	\$ —	\$ —	\$ —	\$ (6,626)	\$ (133,274)
Subordinated Notes	(2,400)	(69,103)	—	57,119	—	108,611
	<u>\$ (2,400)</u>	<u>\$ (69,103)</u>	<u>\$ —</u>	<u>\$ 57,119</u>	<u>\$ (6,626)</u>	<u>\$ (24,663)</u>

The following table presents information for those financial instruments for which the fair value option was elected:

	December 31, 2016			December 31, 2015		
	Excess (Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)		(Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)	
		Fair Value	Excess of Fair Value Over Principal		Fair Value	(Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (6,476)	\$ —	\$ —	\$ (8,845)	\$ —	\$ —
Debt Securities	—	—	—	(426)	—	—
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans	2,616	—	—	(77,900)	1,088	(5,620)
Corporate Bonds	7,259	—	—	(6,046)	—	—
	<u>\$ 3,399</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (93,217)</u>	<u>\$ 1,088</u>	<u>\$ (5,620)</u>

(a) Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2016 and 2015, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of December 31, 2016, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

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**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy:

	December 31, 2016				
	Level I	Level II	Level III	NAV	Total
<b>Assets</b>					
Cash and Cash Equivalents — Money Market Funds	\$ 443,442	\$ —	\$ —	\$ —	\$ 443,442
<b>Investments</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	—	—	—	148,993	148,993
Equity Securities	76,381	70,544	93,657	—	240,582
Partnership and LLC Interests	—	29,430	337,230	—	366,660
Debt Instruments	—	219,049	7,322	—	226,371
Freestanding Derivatives — Foreign Currency Contracts (a)	—	2,327	—	—	2,327
Assets of Consolidated CLO Vehicles					
Corporate Loans	—	4,514,407	247,664	—	4,762,071
Corporate Bonds	—	710,947	—	—	710,947
Freestanding Derivatives — Foreign Currency Contracts	—	22,723	—	—	22,723
Total Investments of Consolidated Blackstone Funds	<u>76,381</u>	<u>5,569,427</u>	<u>685,873</u>	<u>148,993</u>	<u>6,480,674</u>
Corporate Treasury Investments					
Equity Securities	281,505	—	—	—	281,505
Debt Instruments	—	1,944,171	30,424	54,907	2,029,502
Other	—	—	—	207,431	207,431
Total Corporate Treasury					
Investments	<u>281,505</u>	<u>1,944,171</u>	<u>30,424</u>	<u>262,338</u>	<u>2,518,438</u>
Other Investments	<u>163,548</u>	<u>—</u>	<u>100,164</u>	<u>18,779</u>	<u>282,491</u>
Total Investments	<u>521,434</u>	<u>7,513,598</u>	<u>816,461</u>	<u>430,110</u>	<u>9,281,603</u>
Accounts Receivable — Loans and Receivables	<u>—</u>	<u>—</u>	<u>211,359</u>	<u>—</u>	<u>211,359</u>
<b>Other Assets</b>					
Freestanding Derivatives					
Interest Rate Contracts	1,883	473	—	—	2,356
Foreign Currency Contracts	—	1,037	—	—	1,037
Total Freestanding Derivatives	<u>1,883</u>	<u>1,510</u>	<u>—</u>	<u>—</u>	<u>3,393</u>
Total Other Assets	<u>1,883</u>	<u>1,510</u>	<u>—</u>	<u>—</u>	<u>3,393</u>
	<u>\$ 966,759</u>	<u>\$ 7,515,108</u>	<u>\$ 1,027,820</u>	<u>\$ 430,110</u>	<u>\$ 9,939,797</u>

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	December 31, 2016			Total
	Level I	Level II	Level III	
<b>Liabilities</b>				
Loans Payable — Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$ —	\$5,125,804	\$ —	\$5,125,804
Subordinated Notes (b)	—	337,846	—	337,846
Total Loans Payable	—	5,463,650	—	5,463,650
Due to Affiliates — Liabilities of Consolidated CLO Vehicles (a)				
Subordinated Notes (b)	—	7,748	—	7,748
Total Due to Affiliates	—	7,748	—	7,748
Securities Sold, Not Yet Purchased	—	215,398	—	215,398
Accounts Payable, Accrued Expenses and Other Liabilities of Consolidated Blackstone Funds				
Freestanding Derivatives (a)				
Foreign Currency Contracts	—	3,903	—	3,903
Credit Default Swaps	—	3,350	—	3,350
Total Liabilities of Consolidated Blackstone Funds	—	7,253	—	7,253
Freestanding Derivatives				
Interest Rate Contracts	750	1,605	—	2,355
Foreign Currency Contracts	—	966	—	966
Credit Default Swaps	—	215	—	215
Total Freestanding Derivatives	750	2,786	—	3,536
Net Investment Hedges — Foreign Currency Contracts	—	587	—	587
Total Accounts Payable, Accrued Expenses and Other Liabilities	750	10,626	—	11,376
	<u>\$ 750</u>	<u>\$5,697,422</u>	<u>\$ —</u>	<u>\$5,698,172</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2015				
	Level I	Level II	Level III	NAV	Total
<b>Assets</b>					
Cash and Cash Equivalents — Money Market Funds	\$ 460,233	\$ —	\$ —	\$ —	\$ 460,233
<b>Investments</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	—	—	—	155,512	155,512
Equity Securities	82,734	53,250	80,849	—	216,833
Partnership and LLC Interests	—	101,399	472,391	—	573,790
Debt Instruments	—	179,465	20,381	—	199,846
Assets of Consolidated CLO Vehicles					
Corporate Loans	—	2,886,792	200,771	—	3,087,563
Corporate Bonds	—	379,000	—	—	379,000
Freestanding Derivatives — Foreign Currency Contracts	—	1,400	—	—	1,400
Total Investments of Consolidated Blackstone Funds	<u>82,734</u>	<u>3,601,306</u>	<u>774,392</u>	<u>155,512</u>	<u>4,613,944</u>
Corporate Treasury Investments					
Equity Securities	240,464	—	—	—	240,464
Debt Instruments	—	1,069,915	54,657	115,657	1,240,229
Other	—	—	—	201,566	201,566
Total Corporate Treasury Investments	<u>240,464</u>	<u>1,069,915</u>	<u>54,657</u>	<u>317,223</u>	<u>1,682,259</u>
Other Investments	<u>40,261</u>	<u>—</u>	<u>101,184</u>	<u>17,707</u>	<u>159,152</u>
Total Investments	<u>363,459</u>	<u>4,671,221</u>	<u>930,233</u>	<u>490,442</u>	<u>6,455,355</u>
Accounts Receivable — Loans and Receivables	—	—	261,994	—	261,994
<b>Other Assets</b>					
Freestanding Derivatives					
Interest Rate Contracts	1,806	406	—	—	2,212
Foreign Currency Contracts	—	2,088	—	—	2,088
Total Freestanding Derivatives	<u>1,806</u>	<u>2,494</u>	<u>—</u>	<u>—</u>	<u>4,300</u>
Net Investment Hedges — Foreign Currency Contracts	—	319	—	—	319
Total Other Assets	<u>1,806</u>	<u>2,813</u>	<u>—</u>	<u>—</u>	<u>4,619</u>
	<u>\$ 825,498</u>	<u>\$ 4,674,034</u>	<u>\$ 1,192,227</u>	<u>\$ 490,442</u>	<u>\$ 7,182,201</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2015			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Loans Payable — Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$ —	\$3,225,064	\$ —	\$3,225,064
Subordinated Notes (b)	—	90,140	—	90,140
Total Loans Payable	—	3,315,204	—	3,315,204
Due to Affiliates — Liabilities of Consolidated CLO Vehicles (a)				
Subordinated Notes (b)	—	8,231	—	8,231
Total Due to Affiliates	—	8,231	—	8,231
Securities Sold, Not Yet Purchased	—	176,667	—	176,667
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds				
Freestanding Derivatives (a)				
Foreign Currency Contracts	—	6,490	—	6,490
Credit Default Swaps	—	6,275	—	6,275
Total Liabilities of Consolidated Blackstone Funds	—	12,765	—	12,765
Freestanding Derivatives				
Interest Rate Contracts	835	3,453	—	4,288
Foreign Currency Contracts	—	2,042	—	2,042
Credit Default Swaps	—	2,411	—	2,411
Total Freestanding Derivatives	835	7,906	—	8,741
Net Investment Hedges — Foreign Currency Contracts	—	1	—	1
Total Accounts Payable, Accrued Expenses and Other Liabilities	835	20,672	—	21,507
	<u>\$ 835</u>	<u>\$3,520,774</u>	<u>\$ —</u>	<u>\$3,521,609</u>

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, has a controlling financial interest. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.
- (b) Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of December 31, 2016 and 2015, respectively:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Transfers from Level I into Level II (a)	\$ 2,114	\$ —
Transfers from Level II into Level I (b)	\$ 39,974	\$ 32,025

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2016:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 58,826	Discounted Cash Flows	Discount Rate	7.3% - 28.7%	12.7%
			Revenue CAGR	-0.2% - 20.1%	6.3%
			Exit Capitalization Rate	5.0% - 11.4%	8.5%
			Exit Multiple - EBITDA	4.0x - 20.0x	10.0x
			Exit Multiple - P/E	10.5x - 17.0x	11.0x
	2,032	Market Comparable Companies	Book Value Multiple	0.9x	N/A
	22,843	Other	N/A	N/A	N/A
	9,956	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	303,281	Discounted Cash Flows	Discount Rate	3.4% - 27.6%	9.4%
			Revenue CAGR	-27.1% - 47.3%	7.2%
			Exit Capitalization Rate	3.0% - 11.0%	6.0%
			Exit Multiple - EBITDA	3.9x - 18.3x	10.5x
			Exit Multiple - P/E	9.3x	N/A
	13,945	Market Comparable Companies	Capitalization Rate	5.0% - 5.6%	5.2%
	12,916	Other	N/A	N/A	N/A
	1,238	Third Party Pricing	N/A	N/A	N/A
	5,850	Transaction Price	N/A	N/A	N/A
Debt Instruments		Third Party Pricing	N/A	N/A	N/A
	2,227	Discounted Cash Flows	Discount Rate	8.3% - 20.0%	12.9%
	5,002		Revenue CAGR	4.8% - 70.8%	33.8%
			Exit Capitalization Rate	4.7% - 8.3%	7.5%
			Exit Multiple - EBITDA	9.6x - 12.0x	11.0x
	93	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	13,723	Market Comparable Companies	EBITDA Multiple	9.6x	N/A
	<u>233,941</u>	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	685,873				

continued ...



THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Corporate Treasury Investments	\$ 9,783	Discounted Cash Flows	Discount Rate Default Rate Pre-payment Rate Recovery Lag Recovery Rate Reinvestment Rate	6.1% - 10.0% 1.0% - 2.0% 20.0% 12 Months 18.5% - 76.5% LIBOR + 350 bps - LIBOR + 400 bps	7.1% 1.8% N/A N/A 66.4% LIBOR + 390 bps
	20,641	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	211,359	Discounted Cash Flows	Discount Rate	12.0% - 16.4%	13.3%
Other Investments	78,619	Discounted Cash Flows	Discount Rate Default Rate Pre-payment Rate Recovery Lag Recovery Rate Reinvestment Rate	1.2% - 15.0% 2.0% 20.0% 12 Months 70.0% LIBOR + 400 bps	3.1% N/A N/A N/A N/A N/A
	21,545	Transaction Price	N/A	N/A	N/A
Total	<u>\$1,027,820</u>				

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2015:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 66,962	Discounted Cash Flows	Discount Rate	7.8% - 25.0%	13.6%
			Revenue CAGR	-5.0% - 61.5%	10.2%
			Exit Capitalization Rate	5.5% - 11.4%	9.0%
			Exit Multiple - EBITDA	5.0x - 18.2x	9.6x
			Exit Multiple - P/E	10.5x - 17.0x	11.2x
	1,710	Market Comparable Companies	EBITDA Multiple	6.5x - 8.0x	6.6x
			Book Value Multiple	0.9x	N/A
	5,426	Other	N/A	N/A	N/A
	29	Third Party Pricing	N/A	N/A	N/A
	6,722	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	423,588	Discounted Cash Flows	Discount Rate	2.1% - 25.8%	9.3%
			Revenue CAGR	-24.1% - 31.8%	8.6%
			Exit Capitalization Rate	2.7% - 12.1%	6.3%
			Exit Multiple - EBITDA	0.1x - 23.8x	9.8x
			Exit Multiple - P/E	9.3x	N/A
	1,403	Other	N/A	N/A	N/A
	16,963	Third Party Pricing	N/A	N/A	N/A
	30,437	Transaction Price	N/A	N/A	N/A
Debt Instruments	4,086	Discounted Cash Flows	Discount Rate	6.5% - 52.7%	14.1%
			Revenue CAGR	16.8%	N/A
			Exit Capitalization Rate	1.0% - 8.3%	5.8%
			Exit Multiple - EBITDA	12.0x	N/A
	16,217	Third Party Pricing	N/A	N/A	N/A
	78	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	19,783	Market Comparable Companies	EBITDA Multiple	4.5x - 7.0x	6.5x
	180,988	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	774,392				

continued ...

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Corporate Treasury Investments	\$ 32,004	Discounted Cash Flows	Default Rate	1.0% - 2.0%	1.9%
			Discount Rate	5.8% - 14.0%	8.6%
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 months	N/A
			Recovery Rate	30.0% - 70.0%	67.0%
			Reinvestment Rate	LIBOR + 400 bps	N/A
	22,653	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	241,897	Discounted Cash Flows	Discount Rate	6.7% - 20.6%	11.0%
	20,097	Third Party Pricing	N/A	N/A	N/A
Other Investments	81,984	Discounted Cash Flows	Default Rate	2.0%	N/A
			Discount Rate	1.4% - 12.5%	3.3%
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 months	N/A
			Recovery Rate	70.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	19,200	Transaction Price	N/A	N/A	N/A
Total	<u>\$1,192,227</u>				

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

Third Party Pricing Third Party Pricing is generally determined on the basis of unadjusted prices between market participants provided by reputable dealers or pricing services.

Transaction Price Includes recent acquisitions or transactions.

(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of corporate treasury investments, debt instruments and other investments are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

Since December 31, 2015, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in either Investment Income (Loss) or Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value							
	2016				2015			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total
Balance, Beginning of Period	\$ 774,392	\$ 261,994	\$ 155,841	\$ 1,192,227	\$ 2,394,823	\$ 40,397	\$ 189,385	\$ 2,624,605
Transfer Out Due to Deconsolidation	—	—	—	—	(1,460,538)	—	—	(1,460,538)
Transfer In to Level III (b)	84,472	—	19,691	104,163	47,097	—	31,479	78,576
Transfer Out of Level III (b)	(97,841)	—	(33,162)	(131,003)	(195,422)	—	(58,158)	(253,580)
Purchases	373,522	546,060	24,158	943,740	328,237	233,693	47,978	609,908
Sales	(485,254)	(598,232)	(31,251)	(1,114,737)	(383,302)	(9,535)	(40,000)	(432,837)
Settlements	—	(8,599)	(512)	(9,111)	—	(4,435)	(465)	(4,900)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income (Loss)	36,582	10,136	(4,177)	42,541	43,497	1,874	(14,378)	30,993
Balance, End of Period	\$ 685,873	\$ 211,359	\$ 130,588	\$ 1,027,820	\$ 774,392	\$ 261,994	\$ 155,841	\$ 1,192,227
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ (36,074)	\$ 10,178	\$ 3,443	\$ (22,453)	\$ (5,333)	\$ 1,745	\$ (3,624)	\$ (7,212)

	Level III Financial Liabilities at Fair Value					
	2016 (c)			2015 (c)		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ —	\$ —	\$ —	\$ 6,448,352	\$ 348,752	\$ 6,797,104
Transfer Out Due to Deconsolidation	—	—	—	(4,168,405)	(261,934)	(4,430,339)
Transfer Out Due to Amended CLO Guidance (d)	—	—	—	(2,279,947)	(86,818)	(2,366,765)
Balance, End of Period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

**THE BLACKSTONE GROUP L.P.****Notes to Consolidated Financial Statements—Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (a) Represents corporate treasury investments and Other Investments.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) There were no Level III financial liabilities as of and for the year ended December 31, 2016. There were no changes in unrealized (gains) losses included in earnings related to liabilities still held at either December 31, 2016 or 2015.
- (d) Transfers out due to amended CLO measurement guidance represents the transfer out of Level III for liabilities of consolidated CLO vehicles for which fair value is based on the more observable fair value of CLO assets. Such liabilities are classified as Level II within the fair value hierarchy.

**9. VARIABLE INTEREST ENTITIES**

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed carried interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Investments	\$ 644,546	\$ 466,651
Accounts Receivable	12,308	11,726
Due from Affiliates	35,099	51,029
Total VIE Assets	691,953	529,406
Due to Affiliates	577	586
Accounts Payable, Accrued Expenses and Other Liabilities	38	88
Potential Clawback Obligation	81,936	73,450
Maximum Exposure to Loss	<u>\$ 774,504</u>	<u>\$ 603,530</u>

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At December 31, 2016, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$117.8 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$68.8 million and cash were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$119.1 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2015, the Partnership pledged securities with a carrying value of \$64.5 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

The following tables provide information regarding the Partnership's Repurchase Agreements obligation by type of collateral pledged:

	December 31, 2016				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
U.S. Treasury and Agency Securities	\$ 7,034	\$ —	\$ —	\$ —	\$ 7,034
Asset-Backed Securities	—	12,805	30,796	24,689	68,290
Total	<u>\$ 7,034</u>	<u>\$12,805</u>	<u>\$30,796</u>	<u>\$ 24,689</u>	<u>\$75,324</u>
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 12. "Offsetting of Assets and Liabilities"					<u>\$75,324</u>
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 12. "Offsetting of Assets and Liabilities"					<u>\$ —</u>

	December 31, 2015				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
U.S. Treasury and Agency Securities	\$ 970	\$ —	\$ —	\$ —	\$ 970
Asset-Backed Securities	—	39,959	—	—	39,959
Total	<u>\$ 970</u>	<u>\$39,959</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$40,929</u>
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 12. "Offsetting of Assets and Liabilities"					<u>\$40,929</u>
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 12. "Offsetting of Assets and Liabilities"					<u>\$ —</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other Assets consists of the following:

	December 31,	
	2016	2015
Furniture, Equipment and Leasehold Improvements	\$ 338,292	\$ 317,496
Less: Accumulated Depreciation	(211,508)	(181,953)
Furniture, Equipment and Leasehold Improvements, Net	126,784	135,543
Prepaid Expenses	96,888	190,241
Other Assets	37,723	46,786
Freestanding Derivatives	3,393	4,300
Net Investment Hedges	—	319
	<u>\$ 264,788</u>	<u>\$ 377,189</u>

Depreciation expense of \$32.0 million, \$26.0 million and \$28.6 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2016, 2015 and 2014, respectively, is included in General, Administrative and Other in the Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$10.1 million and \$53.7 million as of December 31, 2016 and 2015, respectively, relating to redemptions that were legally payable to investors of the consolidated Blackstone Funds and \$615.0 million and \$187.7 million, respectively, of payables relating to unsettled purchases.

**12. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of December 31, 2016:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 5,720	\$ 1,064	\$ 2,892	\$1,764
Reverse Repurchase Agreements	118,495	117,775	—	720
Total	<u>\$ 124,215</u>	<u>\$ 118,839</u>	<u>\$ 2,892</u>	<u>\$2,484</u>
	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Net Investment Hedges	\$ 587	\$ —	\$ —	\$ 587
Freestanding Derivatives	6,886	1,064	5,638	184
Repurchase Agreements	75,324	72,195	3,129	—
Total	<u>\$ 82,797</u>	<u>\$ 73,259</u>	<u>\$ 8,767</u>	<u>\$ 771</u>

**THE BLACKSTONE GROUP L.P.**  
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**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following tables present the offsetting of assets and liabilities as of December 31, 2015:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 319	\$ 1	\$ —	\$ 318
Freestanding Derivatives	4,300	2,149	1,310	841
Reverse Repurchase Agreements	204,893	203,938	—	955
Total	\$ 209,512	\$ 206,088	\$ 1,310	\$ 2,114
	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Net Investment Hedges	\$ 1	\$ 1	\$ —	\$ —
Freestanding Derivatives	15,016	2,149	12,076	791
Repurchase Agreements	40,929	40,259	670	—
Total	\$ 55,946	\$ 42,409	\$ 12,746	\$ 791

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. See Note 11. “Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities” for the components of Other Assets.

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Statements of Financial Condition and are not a significant component thereof.

**Notional Pooling Arrangement**

Blackstone has a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of December 31, 2016, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.4 billion, which was offset with an accompanying overdraft of \$1.4 billion.



THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

13. BORROWINGS

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected Blackstone Funds. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership’s credit facilities consist of the following:

	December 31,					
	2016			2015		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$ 1,500,000	\$ 683	0.88%	\$1,100,000	\$ 6,129	0.88%
Blackstone Issued Senior Notes (b)						
6.625%, Due 8/15/2019 (c)	585,000	585,000	6.63%	585,000	585,000	6.63%
5.875%, Due 3/15/2021	400,000	400,000	5.88%	400,000	400,000	5.88%
4.750%, Due 2/15/2023	400,000	400,000	4.75%	400,000	400,000	4.75%
6.250%, Due 8/15/2042	250,000	250,000	6.25%	250,000	250,000	6.25%
5.000%, Due 6/15/2044	500,000	500,000	5.00%	500,000	500,000	5.00%
4.450%, Due 7/15/2045	350,000	350,000	4.45%	350,000	350,000	4.45%
2.000%, Due 5/19/2025	315,510	315,510	2.00%	327,990	327,990	2.00%
1.000%, Due 10/5/2026	631,020	631,020	1.00%	—	—	—
	<u>4,931,530</u>	<u>3,432,213</u>	4.37%	<u>3,912,990</u>	<u>2,819,119</u>	5.11%
Blackstone Fund Facilities (d)	2,793	2,793	2.32%	4,453	4,453	1.97%
CLO Vehicles (e)	5,506,976	5,506,976	2.02%	3,914,326	3,914,326	1.94%
	<u>\$10,441,299</u>	<u>\$8,941,982</u>	2.92%	<u>\$7,831,769</u>	<u>\$6,737,898</u>	3.26%

- (a) On August 31, 2016, Blackstone Holdings Finance Co. L.L.C. (the “Issuer”), an indirect subsidiary of the Partnership, entered into an amendment to the Issuer’s revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent. The amendment, among other things, increased the amount of the Credit Facility from \$1.1 billion to \$1.5 billion and extended the maturity date of the Credit Facility from May 29, 2019 to August 31, 2021. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly. The Borrowing Outstanding at each date represent outstanding but undrawn letters of credit against the credit facility.
- (b) Blackstone Holdings Finance Co. L.L.C. (the “Issuer”), an indirect subsidiary of the Partnership, has issued long term borrowings in the form of senior notes (the “Notes”). The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings (the “Guarantors”), and the Issuer. The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been deducted from the Note liability and are being amortized over the life of the Notes. The indentures include covenants, including limitations on the Issuer’s and the Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indentures also provide for events of default and further provide that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer's option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase. Interest expense on the Notes was \$145.6 million, \$136.5 million and \$115.2 million for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively.

- (c) The Credit Available and Borrowing Outstanding are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (d) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Because the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.
- (e) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition.

The following table presents the general characteristics of each of our Notes, as well as their carrying value and fair value. The Notes are included in Loans Payable within the Consolidated Statements of Financial Condition. All of the Notes were issued at a discount. All of the Notes accrue interest from the Issue Date and all pay interest in arrears on a semi-annual basis or annual basis as indicated by the Interest Payment Dates.

Senior Notes	Issue Date	Interest Payment Dates	First Interest Payment Date	December 31,			
				2016		2015	
				Carrying Value	Fair Value (a)	Carrying Value (b)	Fair Value (a)
6.625%, Due 8/15/2019 (c)	8/20/2009	2/15, 8/15	2/15/2010	\$ 607,121	\$ 648,765	\$ 614,996	\$ 665,438
5.875%, Due 3/15/2021	9/15/2010	3/15, 9/15	3/15/2011	398,105	447,600	397,720	458,680
4.750%, Due 2/15/2023	8/17/2012	2/15, 8/15	2/15/2013	393,158	426,520	392,224	430,560
6.250%, Due 8/15/2042	8/17/2012	2/15, 8/15	2/15/2013	237,830	285,450	237,648	297,575
5.000%, Due 6/15/2044	4/7/2014	6/15, 12/15	12/15/2014	488,337	497,200	488,119	515,050
4.450%, Due 7/15/2045	4/27/2015	1/15, 7/15	1/15/2016	343,816	322,525	343,689	332,640
2.000%, Due 5/19/2025	5/19/2015	5/19	5/19/2016	310,805	331,096	322,664	327,465
1.000%, Due 10/5/2026	10/5/2016	10/5	10/5/2017	620,750	598,270	—	—
<b>Total</b>				<b>\$ 3,399,922</b>	<b>\$ 3,557,426</b>	<b>\$ 2,797,060</b>	<b>\$ 3,027,408</b>

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.

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Notes to Consolidated Financial Statements—Continued

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

- (b) The carrying value has been adjusted to reflect the presentation of debt issuance costs as a direct deduction from the related liability for all periods presented in accordance with amended guidance on simplifying the presentation of such costs.
- (c) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	December 31,					
	2016			2015		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$5,124,241	2.17%	5.4	\$3,687,976	1.93%	5.4
Subordinated Notes	382,735	(a)	N/A	226,350	(a)	N/A
	<u>\$5,506,976</u>			<u>\$3,914,326</u>		

- (a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	December 31,					
	2016			2015		
	Fair Value	Amounts Due to Non-Consolidated Affiliates Borrowing Outstanding	Fair Value	Fair Value	Amounts Due to Non-Consolidated Affiliates Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 5,125,804	\$ —	\$ —	\$ 3,225,064	\$ —	\$ —
Subordinated Notes	345,594	10,000	7,748	98,371	10,000	8,231
	<u>\$ 5,471,398</u>	<u>\$ 10,000</u>	<u>\$ 7,748</u>	<u>\$ 3,323,435</u>	<u>\$ 10,000</u>	<u>\$ 8,231</u>

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of December 31, 2016 and 2015, the fair value of the consolidated CLO assets was \$6.4 billion and \$3.9 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2016.

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**Notes to Consolidated Financial Statements—Continued**  
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Scheduled principal payments for borrowings at December 31, 2016 are as follows:

	<u>Operating Borrowings</u>	<u>Blackstone Fund Facilities / CLO Vehicles</u>	<u>Total Borrowings</u>
2017	\$ —	\$ 426,136	\$ 426,136
2018	—	—	—
2019	585,000	—	585,000
2020	—	—	—
2021	400,000	—	400,000
Thereafter	2,446,530	5,083,633	7,530,163
<b>Total</b>	<u>\$3,431,530</u>	<u>\$ 5,509,769</u>	<u>\$ 8,941,299</u>

**14. INCOME TAXES**

Income Before Provision for Taxes of \$2.4 billion for the year ended December 31, 2016 is comprised of \$2.2 billion U.S. domestic income and \$166.6 million foreign income. Income Before Provision for Taxes of \$1.8 billion for the year ended December 31, 2015 is comprised of \$1.8 billion U.S. domestic income and \$59.8 million foreign income.

The Provision for Taxes consists of the following:

	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Current</b>			
Federal Income Tax	\$ 32,383	\$ 45,506	\$ 135,193
Foreign Income Tax	17,322	16,769	24,199
State and Local Income Tax	32,572	28,137	69,281
	<u>82,277</u>	<u>90,412</u>	<u>228,673</u>
<b>Deferred</b>			
Federal Income Tax	42,042	80,307	54,375
Foreign Income Tax	363	(398)	(416)
State and Local Income Tax	7,680	20,077	8,541
	<u>50,085</u>	<u>99,986</u>	<u>62,500</u>
<b>Provision for Taxes</b>	<u>\$ 132,362</u>	<u>\$ 190,398</u>	<u>\$ 291,173</u>

The following table summarizes Blackstone's tax position:

	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income Before Provision for Taxes	\$2,382,010	\$1,814,748	\$3,986,726
Provision for Taxes	\$ 132,362	\$ 190,398	\$ 291,173
Effective Income Tax Rate	5.6%	10.5%	7.3%

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**Notes to Consolidated Financial Statements—Continued**  
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The following table reconciles the effective income tax rate to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2016	2015	2014
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest	-	-	-
Holders (a)	28.6%	26.3%	29.2%
State and Local Income Taxes	1.3%	1.8%	1.5%
Equity-Based Compensation	-0.2%	1.8%	1.1%
Other	-1.9%	-1.8%	-1.1%
Effective Income Tax Rate	<u>5.6%</u>	<u>10.5%</u>	<u>7.3%</u>

(a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.

Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	December 31,	
	2016	2015
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 10,235	\$ 16,357
Equity-Based Compensation	68,642	57,552
Amortization and Depreciation	1,297,669	1,326,395
Net Operating Loss Carry Forward	17,969	15,874
Total Deferred Tax Assets	<u>1,394,515</u>	<u>1,416,178</u>
<b>Deferred Tax Liabilities</b>		
Unrealized Gains from Investments	72,750	105,830
Other	35,296	32,919
Total Deferred Tax Liabilities	<u>108,046</u>	<u>138,749</u>
<b>Net Deferred Tax Assets</b>	<u>\$ 1,286,469</u>	<u>\$ 1,277,429</u>

As a result of the October 1, 2015 spin-off, the net deferred tax assets were reduced by \$70.8 million.

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had a taxable loss of \$4.0 million for the year ended December 31, 2016, which is available for carryback to 2014 or carryforward to 2017. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance.

**THE BLACKSTONE GROUP L.P.****Notes to Consolidated Financial Statements—Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. At this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2016.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2016, Blackstone's U.S. federal income tax returns for the years 2013 through 2015 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2012 through 2015. The City of New York is examining certain other subsidiaries' tax returns for the years 2007 through 2014. The Income Tax Department of the Government of India is examining the tax returns of the Indian subsidiaries for the years 2008 and 2009. Blackstone believes that during 2016 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

Blackstone's unrecognized tax benefits, excluding related interest and penalties, were:

	<u>December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Unrecognized Tax Benefits — January 1	\$15,698	\$19,836	\$18,862
Additions based on Tax Positions Related to Current Year	902	1,031	2,104
Reductions for Tax Positions of Current Year	(851)	—	—
Additions for Tax Positions of Prior Years	—	—	4,002
Reductions for Tax Positions of Prior Years	(7,837)	(4,032)	(2,503)
Reductions for Tax Positions as a Result of a Lapse of the Applicable Statute of Limitations	(3,774)	—	—
Settlements	(357)	—	(1,062)
Exchange Rate Fluctuations	(200)	(1,137)	(1,567)
Unrecognized Tax Benefits — December 31	<u>\$ 3,581</u>	<u>\$15,698</u>	<u>\$19,836</u>

If the above tax benefits were recognized, \$3.6 million and \$15.7 million for the years ended December 31, 2016 and 2015, respectively, would reduce the annual effective rate. Blackstone does not believe that it will have a material increase or decrease in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expenses. During the years ended December 31, 2016, 2015 and 2014, \$(4.1) million,

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**Notes to Consolidated Financial Statements—Continued**  
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\$(0.4) million and \$2.0 million of interest expense were accrued (reversed), respectively. During the years ended December 31, 2016, 2015 and 2014, no penalties were accrued.

**Other Income — Reversal of the Tax Receivable Agreement Liability**

In 2015, the \$82.7 million Reversal of the Tax Receivable Agreement Liability was primarily attributable to the October 1, 2015 spin-off.

**15. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the years ended December 31, 2016, 2015 and 2014 was calculated as follows:

	Year Ended December 31,		
	2016	2015	2014
<b>Net Income for Per Common Unit Calculations</b>			
Net Income Attributable to The Blackstone Group L.P., Basic	\$ 1,039,235	\$ 709,789	\$ 1,584,589
Incremental Net Income from Assumed Exchange of Blackstone Holdings Partnership Units	828,244	524,353	—
Net Income Attributable to The Blackstone Group L.P., Diluted	<u>\$ 1,867,479</u>	<u>\$ 1,234,142</u>	<u>\$ 1,584,589</u>
<b>Units Outstanding</b>			
Weighted-Average Common Units Outstanding, Basic	649,475,264	634,337,179	608,803,111
Weighted-Average Unvested Deferred Restricted Common Units	1,445,277	2,993,398	4,373,294
Weighted-Average Blackstone Holdings Partnership Units	544,194,049	550,754,834	—
Weighted-Average Common Units Outstanding, Diluted	<u>1,195,114,590</u>	<u>1,188,085,411</u>	<u>613,176,405</u>
<b>Net Income Per Common Unit, Basic</b>	<u>\$ 1.60</u>	<u>\$ 1.12</u>	<u>\$ 2.60</u>
<b>Net Income Per Common Unit, Diluted</b>	<u>\$ 1.56</u>	<u>\$ 1.04</u>	<u>\$ 2.58</u>
<b>Distributions Declared Per Common Unit (a)</b>	<u>\$ 1.66</u>	<u>\$ 2.90</u>	<u>\$ 1.92</u>

(a) Distributions declared reflects the calendar date of the declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year.

The following table summarizes the anti-dilutive securities for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Weighted-Average Blackstone Holdings Partnership Units	—	—	542,553,088

**Unit Repurchase Program**

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone common

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units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the years ended December 31, 2016, 2015 and 2014, no units were repurchased. As of December 31, 2016, the amount remaining available for repurchases under this program was \$335.8 million.

**16. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone’s senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership’s 2007 Equity Incentive Plan (the “Equity Plan”), the majority of which to date were granted in connection with Blackstone’s initial public offering (“IPO”). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2016, the Partnership had the ability to grant 168,600,140 units under the Equity Plan.

For the years ended December 31, 2016, 2015 and 2014 the Partnership recorded compensation expense of \$323.7 million, \$629.6 million, and \$734.7 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$33.8 million, \$41.0 million, and \$23.1 million, respectively.

As of December 31, 2016, there was \$885.1 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.4 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,196,549,339 as of December 31, 2016. Total outstanding unvested phantom units were 46,364 as of December 31, 2016.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2016 and of changes during the period January 1, 2016 through December 31, 2016 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted- Average Grant Date Fair Value	Deferred Restricted Common Units	Weighted- Average Grant Date Fair Value	Phantom Units	Weighted- Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2015	40,901,755	\$ 32.98	14,342,129	\$ 22.38	27,942	\$ 28.79
Granted	3,576,676	25.04	3,581,489	26.83	14,248	27.07
Vested	(9,692,698)	26.35	(5,230,879)	19.48	(1,248)	16.48
Forfeited	(217,007)	36.26	(486,723)	21.29	(482)	28.62
Balance, December 31, 2016	34,568,726	\$ 33.58	12,206,016	\$ 24.65	40,460	\$ 28.14



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**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of December 31, 2016, are expected to vest:

	<u>Units</u>	<u>Weighted-Average Service Period in Years</u>
Blackstone Holdings Partnership Units	25,941,573	4.1
Deferred Restricted Blackstone Common Units	8,838,579	1.8
Total Equity-Based Awards	<u>34,780,152</u>	<u>3.5</u>
Phantom Units	<u>33,455</u>	<u>3.4</u>

**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisers and phantom units (cash settled equity-based awards) to other senior and non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's common units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 5 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1.0% to 11.5% annually by employee class, and a per unit discount, ranging from \$0.37 to \$10.88.

The phantom units vest over the assumed service period, which ranges from 1 to 5 years. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 9.9% to 11.5% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$0.2 million, \$1.1 million and \$1.1 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2016, 2015 and 2014, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to eight years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired and pre-existing senior managing directors. The Partnership has accounted for the unvested Blackstone Holdings Partnership Units as compensation expense over the vesting period. The fair values have been derived based on the closing price of Blackstone's common units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone common unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 2 to 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 8.4%, based on historical experience.

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**Notes to Consolidated Financial Statements—Continued**

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In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payments to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units, (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone common units, there was no change in the fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

**17. RELATED PARTY TRANSACTIONS**

**Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	December 31,	
	2016	2015
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ —	\$ 1,686
Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees Principally for Investments in Blackstone Funds	342,943	331,558
Amounts Due from Portfolio Companies and Funds	456,469	319,758
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	1,552	5,931
Management and Performance Fees Due from Non-Consolidated Funds	445,280	403,538
Payments Made on Behalf of Non-Consolidated Entities	196,134	178,326
	<u>\$ 1,442,378</u>	<u>\$ 1,240,797</u>

	December 31,	
	2016	2015
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,186,145	\$ 1,201,543
Accrual for Potential Repayment of Previously Received Performance Fees	—	3,356
Due to Note Holders of Consolidated CLO Vehicles	7,748	8,231
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	28,012	26,593
Distributions Received on Behalf of Blackstone Entities	80,034	33,160
Payments Made by Non-Consolidated Entities	19,833	9,817
	<u>\$ 1,321,772</u>	<u>\$ 1,282,700</u>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

The Founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of December 31, 2016 and 2015, such investments aggregated \$740.3 million and \$746.3 million, respectively. Their share of the Net

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**Notes to Consolidated Financial Statements—Continued**

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Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$79.7 million, \$49.0 million and \$176.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$185.8 million, \$210.7 million and \$327.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$1.4 million, \$5.0 million and \$2.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received carried interest distributions have guaranteed payment on a several basis (subject to a cap) to the carry funds of any clawback obligation with respect to the excess carried interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the carry funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2016. See Note 18. "Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)".

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel make use of aircraft owned as personal assets by Stephen A. Schwarzman; an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and a Director of Blackstone, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone; and an aircraft owned jointly as a personal asset by Bennett J. Goodman, Co-Founder of GSO Capital and a Director of Blackstone, and another senior managing director (each such aircraft, "Personal Aircraft"). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft. Mr. Goodman paid for his interest in his jointly owned Personal Aircraft. Mr. Schwarzman, Mr. James, Mr. Gray and Mr. Goodman respectively bear operating, personnel and maintenance costs associated with the operation of such Personal Aircraft. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made based on market rates.

In addition, on occasion, certain of Blackstone's executive officers and employee directors and their families may make personal use of aircraft owned by Blackstone or in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Any such personal use of Blackstone assets is charged to the executive officer or employee director based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone based on market rates.

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The transactions described herein are not material to the Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$406.9 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the balance sheet date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Consolidated Statements of Cash Flows.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

Additionally, please see Note 18. "Commitments and Contingencies — Contingencies — Guarantees" for information regarding guarantees provided to a lending institution for certain loans held by employees.

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**Notes to Consolidated Financial Statements—Continued**  
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**18. COMMITMENTS AND CONTINGENCIES****Commitments***Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2030. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2016, 2015 and 2014, was \$97.2 million, \$112.0 million and \$97.2 million, respectively. At December 31, 2016 and 2015, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$11.4 million and \$15.7 million, respectively. As of December 31, 2016, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2017	\$ 73,571
2018	71,289
2019	67,443
2020	63,868
2021	75,001
Thereafter	414,051
<b>Total</b>	<b><u>\$ 765,223</u></b>

*Investment Commitments*

Blackstone had \$2.5 billion of investment commitments as of December 31, 2016 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$269.9 million as of December 31, 2016 which includes \$107.4 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies***Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$3.1 million as of December 31, 2016.

The Blackstone Holdings Partnerships provided guarantees to a lending institution for certain loans held by employees either for investment in Blackstone Funds or for members' capital contributions to Blackstone Group International Partners LLP. The amount guaranteed as of December 31, 2016 was \$148.0 million.

*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

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*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund’s life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

For financial reporting purposes, when applicable, the general partners record a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund’s remaining investments and where the fund’s general partner has previously received Carried Interest distributions with respect to such fund’s realized investments.

The following table presents the clawback obligations by segment:

Segment	December 31,					
	2016			2015		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Credit	\$ —	\$ —	\$ —	\$ 1,670	\$ 1,686	\$ 3,356

For Private Equity, Real Estate, and certain Credit Funds, a portion of the carried interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2016, \$612.3 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

In the Credit segment, payment of carried interest to the Partnership by the majority of the rescue lending, mezzanine and hedge fund strategies funds is substantially deferred under the terms of the partnership agreements. This deferral mitigates the need to hold funds in segregated accounts in the event of a cash clawback obligation.

If, at December 31, 2016, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of Carried Interest subject to potential clawback would be \$5.0 billion, on an after tax basis where applicable, of which Blackstone Holdings is potentially liable for \$4.7 billion if current and former Blackstone personnel default on their share of the liability, a possibility that management also views as remote.

**19. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the “Plan”) for eligible employees in the United States. For certain administrative employees who are eligible for participation in the Plan, the Partnership makes a non-elective contribution of 2% of such employee’s annual compensation up to a maximum of one thousand six hundred dollars regardless of whether the employee makes any elective contributions to the Plan. In addition, the Partnership will also contribute 50% of certain eligible employee’s contribution to the Plan with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2016, 2015 and 2014, the Partnership incurred expenses of \$2.1 million, \$2.0 million and \$1.9 million in connection with such Plan.

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The Partnership provides a defined contribution plan for eligible employees in the United Kingdom (“U.K. Plan”). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee’s annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2016, 2015 and 2014, the Partnership incurred expenses of \$0.6 million, \$0.8 million and \$0.7 million, respectively, in connection with the U.K. Plan.

**20. REGULATED ENTITIES**

The Partnership has a registered broker-dealer that is subject to the minimum net capital requirements of the United States Securities and Exchange Commission (“SEC”). This entity has continuously operated in excess of these requirements. The Partnership also has certain entities based in the United Kingdom, Hong Kong, Ireland, Australia, Singapore and Japan, which are subject to the capital requirements of the Financial Conduct Authority, the Hong Kong Securities & Future Commission, the Central Bank of Ireland, the Australian Securities and Investments Commission, the Monetary Authority of Singapore and the Japan Financial Services Agency, respectively. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities that are registered as investment advisers with the SEC.

The regulatory capital requirements referred to above may restrict the Partnership’s ability to withdraw capital from its entities. At December 31, 2016, \$35.7 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**21. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management businesses through four segments:

- Private Equity — Blackstone’s Private Equity segment primarily comprises its management of flagship corporate private equity funds, sector-focused corporate private equity funds, including energy-focused funds, a core private equity fund, an opportunistic investment platform, a secondary private equity fund of funds business, a multi-asset investment program for eligible high net worth investors and a capital markets services business.
- Real Estate — Blackstone’s Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds, high yield real estate debt funds, liquid real estate debt funds, core+ real estate funds, a NYSE-listed REIT and a non-exchange traded REIT.
- Hedge Fund Solutions — Blackstone’s Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (“BAAM”), which manages a broad range of commingled and customized hedge fund of fund solutions and also includes investment platforms that seed new hedge fund businesses, purchase minority ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade directly.
- Credit — Blackstone’s Credit segment consists principally of GSO Capital Partners LP (“GSO”), which is organized into performing credit strategies (which include mezzanine lending funds, business

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development companies and other performing credit strategies), distressed strategies (which include hedge fund strategies, rescue lending funds and distressed energy strategies) and long only strategies (which consist of CLOs, closed end funds, commingled funds and separately managed accounts).

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management.

Blackstone uses Economic Income (“EI”) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone’s IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income (“ENI”) represents EI adjusted to include current period taxes. Taxes represent the total tax provision calculated under GAAP adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Senior management makes operating decisions and assesses the performance of each of Blackstone’s business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

On October 1, 2015, Blackstone completed the spin-off of the operations that historically constituted Blackstone’s Financial Advisory segment, other than Blackstone’s capital markets services business. Blackstone’s capital markets services business was retained and was not part of the spin-off. These historical operations included various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. As of October 1, 2015, Blackstone no longer reported a Financial Advisory segment. Results of the historical Financial Advisory segment are included herein for comparative purposes only. The results of Blackstone’s capital markets services business were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification.



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The following tables present the financial data for Blackstone's four segments as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014.

	<b>December 31, 2016 and the Year Then Ended</b>				<b>Total Segments</b>
	<b>Private Equity</b>	<b>Real Estate</b>	<b>Hedge Fund Solutions</b>	<b>Credit</b>	
<b>Segment Revenues</b>					
Management and Advisory Fees, Net Base Management Fees	\$ 554,134	\$ 795,161	\$ 521,736	\$ 526,748	\$ 2,397,779
Advisory Fees	3,207	—	—	—	3,207
Transaction and Other Fees, Net	38,666	95,324	1,061	6,600	141,651
Management Fee Offsets	(34,810)	(7,322)	—	(37,512)	(79,644)
Total Management and Advisory Fees, Net	<u>561,197</u>	<u>883,163</u>	<u>522,797</u>	<u>495,836</u>	<u>2,462,993</u>
<b>Performance Fees</b>					
<b>Realized</b>					
Carried Interest	245,268	1,203,484	—	26,163	1,474,915
Incentive Fees	—	29,625	42,177	100,299	172,101
<b>Unrealized</b>					
Carried Interest	424,781	(150,997)	504	206,953	481,241
Incentive Fees	—	39,527	785	9,417	49,729
Total Performance Fees	<u>670,049</u>	<u>1,121,639</u>	<u>43,466</u>	<u>342,832</u>	<u>2,177,986</u>
<b>Investment Income (Loss)</b>					
Realized	73,377	122,712	(7,224)	11,004	199,869
Unrealized	(4,843)	(1,119)	15,462	10,921	20,421
Total Investment Income	<u>68,534</u>	<u>121,593</u>	<u>8,238</u>	<u>21,925</u>	<u>220,290</u>
Interest and Dividend Revenue	40,271	54,240	23,083	28,289	145,883
Other	20,458	16,523	8,157	9,574	54,712
Total Revenues	<u>1,360,509</u>	<u>2,197,158</u>	<u>605,741</u>	<u>898,456</u>	<u>5,061,864</u>
<b>Expenses</b>					
Compensation and Benefits Compensation	310,457	385,352	185,320	202,087	1,083,216
<b>Performance Fee Compensation</b>					
<b>Realized</b>					
Carried Interest	110,882	332,622	—	12,450	455,954
Incentive Fees	—	12,085	19,397	46,614	78,096
<b>Unrealized</b>					
Carried Interest	163,937	44,775	181	103,945	312,838
Incentive Fees	—	16,872	292	3,970	21,134
Total Compensation and Benefits	<u>585,276</u>	<u>791,706</u>	<u>205,190</u>	<u>369,066</u>	<u>1,951,238</u>
Other Operating Expenses	196,433	203,962	108,636	120,311	629,342
Total Expenses	<u>781,709</u>	<u>995,668</u>	<u>313,826</u>	<u>489,377</u>	<u>2,580,580</u>
Economic Income	<u>\$ 578,800</u>	<u>\$ 1,201,490</u>	<u>\$ 291,915</u>	<u>\$ 409,079</u>	<u>\$ 2,481,284</u>
Segment Assets as of December 31, 2016	<u>\$ 6,493,236</u>	<u>\$ 7,643,123</u>	<u>\$ 2,160,688</u>	<u>\$ 2,905,081</u>	<u>\$ 19,202,128</u>

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	December 31, 2015 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 502,640	\$ 668,575	\$ 524,386	\$ 500,982	\$ —	\$ 2,196,583
Advisory Fees	10,561	—	—	—	297,570	308,131
Transaction and Other Fees, Net	36,258	110,577	317	6,371	162	153,685
Management Fee Offsets	(36,760)	(26,840)	171	(30,065)	—	(93,494)
Total Management and Advisory Fees, Net	<u>512,699</u>	<u>752,312</u>	<u>524,874</u>	<u>477,288</u>	<u>297,732</u>	<u>2,564,905</u>
Performance Fees						
Realized						
Carried Interest	1,474,987	1,634,733	—	96,156	—	3,205,876
Incentive Fees	—	17,153	68,197	109,396	—	194,746
Unrealized						
Carried Interest	(717,955)	(680,542)	2,021	(198,820)	—	(1,595,296)
Incentive Fees	—	20,802	(8,084)	(19,967)	—	(7,249)
Total Performance Fees	<u>757,032</u>	<u>992,146</u>	<u>62,134</u>	<u>(13,235)</u>	<u>—</u>	<u>1,798,077</u>
Investment Income (Loss)						
Realized	189,649	235,582	(12,741)	7,186	(868)	418,808
Unrealized	(116,338)	(231,889)	(1,435)	(16,258)	(39)	(365,959)
Total Investment Income (Loss)	<u>73,311</u>	<u>3,693</u>	<u>(14,176)</u>	<u>(9,072)</u>	<u>(907)</u>	<u>52,849</u>
Interest and Dividend Revenue	33,218	43,990	17,274	24,599	12,520	131,601
Other	5,854	(1,422)	200	5,171	(1,303)	8,500
Total Revenues	<u>1,382,114</u>	<u>1,790,719</u>	<u>590,306</u>	<u>484,751</u>	<u>308,042</u>	<u>4,555,932</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	280,248	358,381	179,484	190,189	180,917	1,189,219
Performance Fee Compensation						
Realized						
Carried Interest	256,922	484,037	—	52,841	—	793,800
Incentive Fees	—	8,678	27,155	50,113	—	85,946
Unrealized						
Carried Interest	(10,172)	(196,347)	823	(107,000)	—	(312,696)
Incentive Fees	—	8,817	(2,912)	(8,395)	—	(2,490)
Total Compensation and Benefits	<u>526,998</u>	<u>663,566</u>	<u>204,550</u>	<u>177,748</u>	<u>180,917</u>	<u>1,753,779</u>
Other Operating Expenses	199,158	179,175	90,072	93,626	62,326	624,357
Total Expenses	<u>726,156</u>	<u>842,741</u>	<u>294,622</u>	<u>271,374</u>	<u>243,243</u>	<u>2,378,136</u>
Economic Income	<u>\$ 655,958</u>	<u>\$ 947,978</u>	<u>\$ 295,684</u>	<u>\$ 213,377</u>	<u>\$ 64,799</u>	<u>\$ 2,177,796</u>
Segment Assets as of December 31, 2015	<u>\$5,680,315</u>	<u>\$7,456,507</u>	<u>\$1,916,956</u>	<u>\$2,725,585</u>	<u>\$ —</u>	<u>\$ 17,779,363</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Year Ended December 31, 2014					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 415,841	\$ 628,502	\$ 482,981	\$ 460,205	\$ —	\$ 1,987,529
Advisory Fees	21,903	—	—	—	398,942	420,845
Transaction and Other Fees, Net	135,718	91,610	569	18,161	379	246,437
Management Fee Offsets	(19,146)	(34,443)	(5,014)	(28,168)	—	(86,771)
Total Management and Advisory Fees, Net	<u>554,316</u>	<u>685,669</u>	<u>478,536</u>	<u>450,198</u>	<u>399,321</u>	<u>2,568,040</u>
Performance Fees						
Realized						
Carried Interest	754,402	1,487,762	—	208,432	—	2,450,596
Incentive Fees	—	11,499	140,529	109,717	—	261,745
Unrealized						
Carried Interest	1,222,828	524,046	—	(37,913)	—	1,708,961
Incentive Fees	—	(5,521)	(879)	(23,025)	—	(29,425)
Total Performance Fees	<u>1,977,230</u>	<u>2,017,786</u>	<u>139,650</u>	<u>257,211</u>	<u>—</u>	<u>4,391,877</u>
Investment Income (Loss)						
Realized	202,719	309,095	21,550	9,354	707	543,425
Unrealized	(23,914)	(58,930)	5,132	5,055	860	(71,797)
Total Investment Income	<u>178,805</u>	<u>250,165</u>	<u>26,682</u>	<u>14,409</u>	<u>1,567</u>	<u>471,628</u>
Interest and Dividend Revenue	21,993	30,197	11,114	23,040	10,000	96,344
Other	6,569	2,863	1,855	(2,310)	428	9,405
Total Revenues	<u>2,738,913</u>	<u>2,986,680</u>	<u>657,837</u>	<u>742,548</u>	<u>411,316</u>	<u>7,537,294</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	280,499	326,317	131,658	188,200	226,837	1,153,511
Performance Fee Compensation						
Realized						
Carried Interest	266,393	432,996	—	116,254	—	815,643
Incentive Fees	—	5,980	42,451	61,668	—	110,099
Unrealized						
Carried Interest	210,446	197,174	—	(28,583)	—	379,037
Incentive Fees	—	(2,751)	(273)	(16,252)	—	(19,276)
Total Compensation and Benefits	<u>757,338</u>	<u>959,716</u>	<u>173,836</u>	<u>321,287</u>	<u>226,837</u>	<u>2,439,014</u>
Other Operating Expenses	<u>143,562</u>	<u>146,083</u>	<u>86,129</u>	<u>90,524</u>	<u>87,484</u>	<u>553,782</u>
Total Expenses	<u>900,900</u>	<u>1,105,799</u>	<u>259,965</u>	<u>411,811</u>	<u>314,321</u>	<u>2,992,796</u>
Economic Income	<u>\$1,838,013</u>	<u>\$1,880,881</u>	<u>\$ 397,872</u>	<u>\$330,737</u>	<u>\$ 96,995</u>	<u>\$4,544,498</u>

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

The following tables reconcile the Total Segments to Blackstone's Income Before Provision for Taxes for the years ended December 31, 2016, 2015 and 2014 along with Total Assets as of December 31, 2016 and 2015:

	<u>December 31, 2016 and the Year Then Ended</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$ 5,061,864	\$ 63,970(a)	\$ 5,125,834
Expenses	\$ 2,580,580	\$ 347,994(b)	\$ 2,928,574
Other Income	\$ —	\$ 184,750(c)	\$ 184,750
Economic Income	\$ 2,481,284	\$ (99,274)(d)	\$ 2,382,010
Total Assets	\$ 19,202,128	\$ 7,201,209(e)	\$ 26,403,337

	<u>December 31, 2015 and the Year Then Ended</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$ 4,555,932	\$ 90,620(a)	\$ 4,646,552
Expenses	\$ 2,378,136	\$ 712,739(b)	\$ 3,090,875
Other Income	\$ —	\$ 259,071(c)	\$ 259,071
Economic Income	\$ 2,177,796	\$ (363,048)(d)	\$ 1,814,748
Total Assets	\$ 17,779,363	\$ 4,746,717(e)	\$ 22,526,080

	<u>Year Ended December 31, 2014</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$ 7,537,294	\$ (52,566)(a)	\$ 7,484,728
Expenses	\$ 2,992,796	\$ 863,060(b)	\$ 3,855,856
Other Income	\$ —	\$ 357,854(c)	\$ 357,854
Economic Income	\$ 4,544,498	\$ (557,772)(d)	\$ 3,986,726

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds that were eliminated in consolidation to arrive at Blackstone consolidated revenues, non-segment related Investment Income (Loss), which is included in Blackstone consolidated revenues and the elimination of inter-segment interest income.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles, expenses related to transaction-related equity-based compensation and the elimination of inter-segment interest expense to arrive at Blackstone consolidated expenses.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (c) The Other Income adjustment results from the following:

	Year Ended December 31,		
	2016	2015	2014
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Income (Loss)	\$ (65,849)	\$(100,657)	\$ 52,219
Fund Expenses Added in Consolidation	7,329	48,239	19,169
Income Associated with Non-Controlling Interests of Consolidated Entities	250,129	231,045	409,864
Transaction-Related Other Income (Loss)	(6,859)	80,444	(123,398)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$184,750</b>	<b>\$ 259,071</b>	<b>\$ 357,854</b>

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2016	2015	2014
Economic Income	\$ 2,481,284	\$ 2,177,796	\$ 4,544,498
Adjustments			
Amortization of Intangibles	(84,466)	(104,530)	(111,254)
Transaction-Related Charges	(264,937)	(489,563)	(856,382)
Income Associated with Non-Controlling Interests of Consolidated Entities	250,129	231,045	409,864
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>(99,274)</b>	<b>(363,048)</b>	<b>(557,772)</b>
<b>Income Before Provision for Taxes</b>	<b>\$ 2,382,010</b>	<b>\$ 1,814,748</b>	<b>\$ 3,986,726</b>

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

**22. SUBSEQUENT EVENTS**

There have been no events since December 31, 2016 that require recognition or disclosure in the Consolidated Financial Statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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

**23. QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Three Months Ended			
	March 31, 2016 (b)	June 30, 2016	September 30, 2016	December 31, 2016
Revenues	\$ 932,354	\$ 1,192,426	\$ 1,431,685	\$ 1,569,369
Expenses	617,710	712,603	773,777	824,484
Other Income	19,142	30,703	61,395	73,510
Income Before Provision for Taxes	<u>\$ 333,786</u>	<u>\$ 510,526</u>	<u>\$ 719,303</u>	<u>\$ 818,395</u>
Net Income	<u>\$ 324,640</u>	<u>\$ 463,111</u>	<u>\$ 691,589</u>	<u>\$ 770,308</u>
Net Income Attributable to The Blackstone Group L.P.	<u>\$ 159,753</u>	<u>\$ 198,626</u>	<u>\$ 312,905</u>	<u>\$ 367,951</u>
<b>Net Income Per Common Unit</b>				
Common Units, Basic	<u>\$ 0.23</u>	<u>\$ 0.31</u>	<u>\$ 0.48</u>	<u>\$ 0.56</u>
Common Units, Diluted	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.47</u>	<u>\$ 0.55</u>
Distributions Declared (a)	<u>\$ 0.61</u>	<u>\$ 0.28</u>	<u>\$ 0.36</u>	<u>\$ 0.41</u>

	Three Months Ended			
	March 31, 2015 (c)	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	\$2,512,358	\$1,225,202	\$ 11,573	\$ 897,419
Expenses	1,142,568	914,432	476,997	556,878
Other Income (Loss)	93,555	82,015	(16,867)	100,368
Income (Loss) Before Provision for Taxes	<u>\$1,463,345</u>	<u>\$ 392,785</u>	<u>\$ (482,291)</u>	<u>\$ 440,909</u>
Net Income (Loss)	<u>\$1,364,001</u>	<u>\$ 349,534</u>	<u>\$ (483,864)</u>	<u>\$ 394,679</u>
Net Income (Loss) Attributable to The Blackstone Group L.P.	<u>\$ 629,448</u>	<u>\$ 134,168</u>	<u>\$ (254,697)</u>	<u>\$ 200,870</u>
<b>Net Income (Loss) Per Common Unit</b>				
Common Units, Basic	<u>\$ 1.01</u>	<u>\$ 0.21</u>	<u>\$ (0.40)</u>	<u>\$ 0.31</u>
Common Units, Diluted	<u>\$ 1.00</u>	<u>\$ 0.21</u>	<u>\$ (0.40)</u>	<u>\$ 0.23</u>
Distributions Declared (a)	<u>\$ 0.78</u>	<u>\$ 0.89</u>	<u>\$ 0.74</u>	<u>\$ 0.49</u>

- (a) Distributions declared reflects the calendar date of the declaration of each distribution.
- (b) Blackstone adopted new GAAP stock compensation guidance for the quarter ended June 30, 2016 and applied a modified retrospective approach as of January 1, 2016. Adoption changed Provision for Taxes, Net Income, Net Income Attributable to The Blackstone Group L.P. and the number of GAAP Weighted Average Units Outstanding—Diluted for the quarter ended March 31, 2016. Such amounts have been recast here from the amounts originally reported for the quarter ended March 31, 2016.
- (c) Blackstone adopted new GAAP consolidation guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. Adoption did not change Net Income Attributable to The Blackstone Group L.P. for the quarter ended March 31, 2015, but did change Revenues, Expenses, Other Income (Loss), Income (Loss) Before Provision for Taxes and Net Income (Loss). Such amounts have been recast here from the amounts originally reported for the quarter ended March 31, 2015.

## ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
(Dollars in Thousands)

	December 31, 2016			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,837,253	\$ —	\$ —	\$ 1,837,253
Cash Held by Blackstone Funds and Other	261,909	743,252	—	1,005,161
Investments	11,618,729	6,474,168	(397,922)	17,694,975
Accounts Receivable	404,843	367,852	—	772,695
Reverse Repurchase Agreements	118,495	—	—	118,495
Due from Affiliates	1,433,612	27,473	(18,707)	1,442,378
Intangible Assets, Net	262,604	—	—	262,604
Goodwill	1,718,519	—	—	1,718,519
Other Assets	259,695	5,093	—	264,788
Deferred Tax Assets	1,286,469	—	—	1,286,469
<b>Total Assets</b>	<b>\$19,202,128</b>	<b>\$7,617,838</b>	<b>\$ (416,629)</b>	<b>\$26,403,337</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 3,399,922	\$ 5,466,444	\$ —	\$ 8,866,366
Due to Affiliates	1,253,791	86,688	(18,707)	1,321,772
Accrued Compensation and Benefits	2,327,762	—	—	2,327,762
Securities Sold, Not Yet Purchased	127,710	87,688	—	215,398
Repurchase Agreements	7,034	68,290	—	75,324
Accounts Payable, Accrued Expenses and Other Liabilities	533,101	548,681	—	1,081,782
<b>Total Liabilities</b>	<b>7,649,320</b>	<b>6,257,791</b>	<b>(18,707)</b>	<b>13,888,404</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>—</b>	<b>185,390</b>	<b>—</b>	<b>185,390</b>
<b>Partners' Capital</b>				
Partners' Capital	6,524,607	398,001	(398,679)	6,523,929
Accumulated Other Comprehensive Income	(63,644)	—	757	(62,887)
Non-Controlling Interests in Consolidated Entities	1,652,308	776,656	—	2,428,964
Non-Controlling Interests in Blackstone Holdings	3,439,537	—	—	3,439,537
<b>Total Partners' Capital</b>	<b>11,552,808</b>	<b>1,174,657</b>	<b>(397,922)</b>	<b>12,329,543</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$19,202,128</b>	<b>\$7,617,838</b>	<b>\$ (416,629)</b>	<b>\$26,403,337</b>

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
(Dollars in Thousands)

	December 31, 2015			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,837,324	\$ —	\$ —	\$ 1,837,324
Cash Held by Blackstone Funds and Other	148,660	438,472	—	587,132
Investments	10,186,419	4,591,465	(453,787)	14,324,097
Accounts Receivable	461,610	151,543	—	613,153
Reverse Repurchase Agreements	204,893	—	—	204,893
Due from Affiliates	1,224,692	25,722	(9,617)	1,240,797
Intangible Assets, Net	345,547	—	—	345,547
Goodwill	1,718,519	—	—	1,718,519
Other Assets	374,270	2,919	—	377,189
Deferred Tax Assets	1,277,429	—	—	1,277,429
<b>Total Assets</b>	<b>\$17,779,363</b>	<b>\$5,210,121</b>	<b>\$ (463,404)</b>	<b>\$22,526,080</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 2,797,060	\$3,319,687	\$ —	\$ 6,116,747
Due to Affiliates	1,244,748	50,892	(12,940)	1,282,700
Accrued Compensation and Benefits	2,029,900	18	—	2,029,918
Securities Sold, Not Yet Purchased	99,392	77,275	—	176,667
Repurchase Agreements	970	39,959	—	40,929
Accounts Payable, Accrued Expenses and Other Liabilities	422,905	225,757	—	648,662
<b>Total Liabilities</b>	<b>6,594,975</b>	<b>3,713,588</b>	<b>(12,940)</b>	<b>10,295,623</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>—</b>	<b>183,459</b>	<b>—</b>	<b>183,459</b>
<b>Partners' Capital</b>				
Partners' Capital	6,323,025	450,417	(451,135)	6,322,307
Accumulated Other Comprehensive Income	(53,190)	—	671	(52,519)
Non-Controlling Interests in Consolidated Entities	1,546,044	862,657	—	2,408,701
Non-Controlling Interests in Blackstone Holdings	3,368,509	—	—	3,368,509
<b>Total Partners' Capital</b>	<b>11,184,388</b>	<b>1,313,074</b>	<b>(450,464)</b>	<b>12,046,998</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$17,779,363</b>	<b>\$5,210,121</b>	<b>\$ (463,404)</b>	<b>\$22,526,080</b>

(a) The Consolidated Blackstone Funds consisted of the following:

- Blackstone Real Estate Partners VI.C — ESH L.P.
- Blackstone Real Estate Special Situations Fund L.P.
- Blackstone Real Estate Special Situations Offshore Fund Ltd.
- Blackstone Strategic Alliance Fund L.P.
- Blackstone/GSO Loan Financing Limited
- BSSF I AIV L.P.
- BTD CP Holdings, LP
- GSO Legacy Associates II LLC
- GSO Legacy Associates LLC



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Private equity side-by-side investment vehicles  
Real estate side-by-side investment vehicles  
Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a — 15(f) and 15d — 15(f) under the Securities Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management’s Report on Internal Control Over Financial Reporting**

Management of The Blackstone Group L.P. and subsidiaries (“Blackstone”) is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone’s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Blackstone’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial

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statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2016 based on the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Blackstone's internal control over financial reporting as of December 31, 2016 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone's financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2016, which is included herein.

**ITEM 9B. OTHER INFORMATION**

**Section 13(r) Disclosure**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein (i) Exhibit 99.1 of our Quarterly Report on Form 10-Q filed on May 5, 2016, which includes disclosures publicly filed and/or provided to us by Travelport Limited, which may have been at the time of such disclosures considered our affiliate, and NCR Corporation, which may be considered our affiliate and (ii) Exhibit 99.1 of our Quarterly Report on Form 10-Q filed on August 4, 2016, which includes disclosures publicly filed and/or provided to us by NCR Corporation, which may be considered our affiliate.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers of Blackstone Group Management L.L.C.

The directors and executive officers of Blackstone Group Management L.L.C. as of the date of this filing, are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen A. Schwarzman	70	Founder, Chairman and Chief Executive Officer and Director
Hamilton E. James	66	President, Chief Operating Officer and Director
J. Tomilson Hill	68	Vice Chairman and Director
Bennett J. Goodman	59	Co-Founder of GSO Capital Partners and Director
Jonathan D. Gray	47	Global Head of Real Estate and Director
Michael S. Chae	48	Chief Financial Officer
John G. Finley	60	Chief Legal Officer
Joan Solotar	52	Senior Managing Director — Head of Private Wealth Solutions and External Relations
James W. Breyer	55	Director
Peter T. Grauer	71	Director
Richard H. Jenrette	87	Director
Rochelle B. Lazarus	69	Director
Jay O. Light	75	Director
The Right Honorable Brian Mulroney	77	Director
William G. Parrett	71	Director

**Stephen A. Schwarzman** is the Chairman and Chief Executive Officer of Blackstone and the Chairman of the board of directors of our general partner. Mr. Schwarzman was elected Chairman of the board of directors of our general partner effective March 20, 2007. He also sits on the firm's Management Committee. Mr. Schwarzman is a founder of Blackstone and has been involved in all phases of the firm's development since its founding in 1985. Mr. Schwarzman began his career at Lehman Brothers, where he was elected Managing Director in 1978. He was engaged principally in the firm's mergers and acquisitions business from 1977 to 1984, and served as Chairman of the firm's Mergers & Acquisitions Committee in 1983 and 1984. Mr. Schwarzman is an active philanthropist with a history of supporting education and schools. Whether in business or in philanthropy, he has always attempted to tackle big problems and find transformative solutions. In 2015, Mr. Schwarzman donated \$150 million to Yale University to establish the Schwarzman Center, a first-of-its-kind campus center in Yale's historic "Commons" building. In 2013, he founded an international scholarship program, "Schwarzman Scholars," at Tsinghua University in Beijing to educate future leaders about China. At \$450 million, the program is modeled on the Rhodes Scholarship and is the single largest philanthropic effort in China's history coming largely from international donors. Mr. Schwarzman currently maintains his position as Co-Chair of the Board of Trustees of Schwarzman Scholars. In 2007, Mr. Schwarzman donated \$100 million to the New York Public Library on whose board he serves. Mr. Schwarzman is a member of The Council on Foreign Relations, The Business Council, The Business Roundtable, and The International Business Council of the World Economic Forum. He is co-chair of the Partnership for New York City and serves on the boards of The Asia Society and New York Presbyterian Hospital, as well as on The Advisory Board of the School of Economics and Management at Tsinghua University, Beijing. He is a Trustee of The Frick Collection in New York City and Chairman Emeritus of the Board of Directors of The John F. Kennedy Center for the Performing Arts. In 2007, Mr. Schwarzman was included in TIME's "100 Most Influential People." Mr. Schwarzman was awarded the Légion d'Honneur of France in 2007 and promoted to Officier in 2010. In 2016, he topped Forbes Magazine's list of the most influential people in finance. He is also Chairman of the President's Strategic and Policy Forum, which is charged with providing direct input to the President of the United States from business leaders through a non-partisan, non-bureaucratic exchange of ideas. Mr. Schwarzman holds a BA from Yale University and an MBA from Harvard Business School. He has served as an adjunct professor at the Yale School of Management and on the Harvard Business School Board of Dean's Advisors.

**Hamilton E. James** is President and Chief Operating Officer of Blackstone and a member of the board of directors of our general partner. Mr. James was elected to the board of directors of our general partner effective March 20, 2007. He is also a member of Blackstone's Management Committee. Prior to joining Blackstone in 2002, Mr. James was Chairman of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of its executive board. Prior to the acquisition of Donaldson, Lufkin & Jenrette, Inc. ("DLJ") by Credit Suisse First Boston in 2000, Mr. James was the Chairman of DLJ's Banking Group, responsible for all the firm's investment banking and merchant banking activities. Mr. James joined DLJ in 1975 as an Investment Banking associate. He became head of DLJ's global mergers and acquisitions group in 1982, founded DLJ Merchant Banking, Inc. in 1985, and was named Chairman of the Banking Group in 1995. Mr. James is a director of Costco Wholesale Corporation and has served on a number of other corporate boards. Mr. James is a Commissioner of The Port Authority of New York and New Jersey, a Trustee of The Metropolitan Museum of Art, member of The Boards of Trustees of Mount Sinai Health System, member of The Center for American Progress Board of Trustees, Vice Chairman of Trout Unlimited's Coldwater Conservations Fund, Trustee of Woods Hole Oceanographic Institution, Trustee of the Wildlife Conservation Society, Advisory Board Member of The Montana Land Reliance and Chairman Emeritus of the Board of Trustees of American Ballet Theatre. He is also a former member of the President's Export Council — Subcommittee on Technology & Competitiveness. In 2016, Mr. James co-authored *Rescuing Retirement*, a book proposing a solution to America's looming retirement crisis. Mr. James received a BA from Harvard College and an MBA from Harvard Business School.

**J. Tomilson Hill** is President and Chief Executive Officer of the Hedge Fund Solutions group, Vice Chairman of Blackstone and a member of the board of directors of our general partner. Mr. Hill was elected to the board of directors of our general partner effective March 20, 2007. He also sits on the firm's Management Committee. Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role as Chief Executive Officer of BAAM. In his current capacity, Mr. Hill is responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, product development, marketing, operations and administration. He is a member of the board of directors of Patria Investment Limited. Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of its Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc. Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he is Chairman Emeritus of the Investment Committee and serves on the Council's board of directors, and is a member of the board of directors of Lincoln Center Theater, where he is Chairman Emeritus. He is Chairman Emeritus of the Hirshhorn Museum and Sculpture Garden in Washington, D.C. He currently serves on the board of The Metropolitan Museum of Art, the Telluride Foundation, the Advantage Testing Foundation, the Friends of the High Line, and of Our Lady Queen of Angels School, a parochial school (K-8th grade) in Spanish Harlem. He is a member of the Advisory Board of Christie's and a member of the board of directors of First Eagle Investment Management, Hamilton Insurance Group, Limited and Advantage Testing, Inc.

**Bennett J. Goodman** is a Co-Founder of GSO and a member of the board of directors of our general partner. Mr. Goodman was elected to the board of directors of our general partner effective February 24, 2015. He also sits on the firm's Management Committee. Since joining Blackstone in 2008, Mr. Goodman has focused on the management of GSO, which is Blackstone's credit investment platform with over \$93 billion of assets under management in various direct lending strategies, leveraged loan vehicles and distressed investment funds. Before co-founding GSO in 2005, Mr. Goodman was the Managing Partner of the Alternative Capital Division of Credit Suisse. Mr. Goodman joined Credit Suisse in November 2000 when they acquired DLJ where he was Global Head of Leveraged Finance. Mr. Goodman joined DLJ in February of 1988 as the founder of the High Yield Capital Markets Group. Prior to joining DLJ, Mr. Goodman worked in the high yield business at Drexel Burnham Lambert from 1984 to 1988. Mr. Goodman is currently on the board of directors of Lincoln Center and the Central Park Conservancy. Mr. Goodman received Institutional Investor's 2012 Money Manager of The Year Award. He also received the 2004 Lifetime Achievement Award from Euromoney Magazine for his career achievements in the global capital markets. He graduated from Lafayette College and the Harvard Business School.

**Jonathan D. Gray** is Global Head of Real Estate and a member of the board of directors of our general partner. Mr. Gray was elected to the board of directors of our general partner effective February 24, 2012. He also sits on the firm's Management Committee. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with \$102 billion in investor capital under management. Blackstone's portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe, Asia and Latin America. Mr. Gray currently serves as Chairman of the board of directors of Hilton Worldwide Holdings Inc. and Nevada Property 1 LLC (The Cosmopolitan of Las Vegas). He is also a member of the board of directors of Invitation Homes Inc. Mr. Gray also previously served as a board member of Brixmor Property Group Inc. He also serves on the board of Harlem Village Academies and Trinity School. Mr. Gray and his wife, Mindy, established the Basser Center for BRCA at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused cancers. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania.

**Michael S. Chae** is Blackstone's Chief Financial Officer and a member of the firm's Management Committee. Mr. Chae has management responsibility over the firm's global finance, treasury, technology and corporate development functions. Since joining Blackstone in 1997, Mr. Chae has served in a broad range of leadership roles including Head of International Private Equity, from 2012 through 2015, Head of Private Equity for Asia/Pacific, from 2011 through 2015, and overseeing Private Equity investments in various sectors and the investment process for Tactical Opportunities. Mr. Chae led or was involved in numerous Blackstone investments over that time period. Before joining Blackstone, Mr. Chae worked at The Carlyle Group, L.P. and prior to that with Dillon, Read & Co. Mr. Chae received an AB from Harvard College, an MPhil. in International Relations from Cambridge University and a JD from Yale Law School. He has served on numerous boards of private and publicly traded portfolio companies. Mr. Chae is a member of the Board of Trustees of the Lawrenceville School and Chairman of its Investment Committee, and a member of the Council on Foreign Relations and the Board of Trustees of the Asia Society.

**John G. Finley** is Chief Legal Officer of Blackstone and a member of the firm's Management Committee. Before joining Blackstone in 2010, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years where he was most recently a member of that law firm's Executive Committee and Head of Global Mergers & Acquisitions. Mr. Finley is a member of the Advisory Board of the Harvard Law School Program on Corporate Governance, the National Advisory Board of the Netter Center for Community Partnerships of the University of Pennsylvania and the Board of Advisors of the University of Pennsylvania Institute of Law and Economics. He is also a guest lecturer at Harvard Law School and Penn Law School. He has served on the Committee of Securities Regulation of the New York State Bar Association, the Board of Advisors of the Knight-Bagehot Fellowship in Economics and Business Journalism at Columbia University and as a Trustee of the Jewish Board of Family and Children Services. He has also served as Chairman of the Annual International Mergers & Acquisitions Conference of the International Bar Association. Mr. Finley received a BS in Economics from the Wharton School of the University of Pennsylvania, a BA in History from the College of Arts and Sciences of the University of Pennsylvania, and a JD from Harvard Law School.

**Joan Solotar** is a Senior Managing Director, Head of Private Wealth Solutions and External Relations and a member of the firm's Management Committee. Ms. Solotar oversees the firm's Private Wealth Solutions business, which develops and distributes products and services to meet the needs of institutional and high net worth clients. Additionally, she manages global shareholder relations, public affairs and corporate services. Before joining Blackstone in 2007, Ms. Solotar was with Bank of America Securities where she was a Managing Director and Head of Equity Research. Prior to joining Bank of America, she was a consistently highly ranked Institutional Investor "All-American Research Team" financial services analyst at DLJ and Credit Suisse First Boston as a Managing Director. Ms. Solotar chairs the board of directors of Blackstone's Charitable Foundation and is Chairman of the Board of Trustees of the East Harlem Tutorial Program and the East Harlem Scholars Academies. She is the recent author of a Harvard Business Review article entitled "Truths for our Daughters." Ms. Solotar received a BS in Management Information Systems at the State University of New York at Albany and an MBA in Finance at New York University.

**James W. Breyer** is a member of the board of directors of our general partner. Mr. Breyer was elected to the board of directors of our general partner effective July 14, 2016. Mr. Breyer is the Founder and Chief Executive Officer of Breyer Capital, a global venture capital fund. Mr. Breyer has been an investor in over 30 public and private consumer internet, media and technology companies, many of which have completed public offerings or successful mergers. He served as Partner at Accel Partners from 1990 to 2016 and Managing Partner from 1995 to 2011. Mr. Breyer has been an active investor in China for over a decade and is lead outside sponsor, partner and investor in IDG China Capital Funds. Mr. Breyer currently serves on the board of directors of Twenty-First Century Fox, Inc. and Circle Internet Financial, Inc. and previously served on the board of directors of Facebook, Inc. from 2005 to 2013, Dell, Inc. from 2009 to 2013, and Wal-Mart Stores, Inc. from 2001 to 2013, as well as a number of other prominent technology and media companies. Mr. Breyer has been ranked #1 on Forbes' Midas List of top technology investors multiple times and is former Chairman of the National Venture Capital Association and former President of the Western Association of Venture Capitalists. Mr. Breyer is a fellow of the Harvard Corporation, member of the Advisory Board of Stanford University School of Engineering, Trustee of the Metropolitan Museum of Art, Trustee of the San Francisco Museum of Modern Art, member of the Council on Foreign Relations, Chairman of the Advisory Board of the Tsinghua University School of Economics and Management in Beijing, and in 2005 was named an Honorary Professor at the 1,000 year-old Yuelu Academy at Hunan University.

**Peter T. Grauer** is a member of the board of directors of our general partner. Mr. Grauer was elected to the board of directors of our general partner effective January 26, 2016. Mr. Grauer is Chairman of Bloomberg L.P., a global financial information and media company. A member of the board of Bloomberg L.P. since 1996, Mr. Grauer became Chairman in 2001, and then Chairman, President and Chief Executive Officer in March 2002. Prior to joining Bloomberg L.P., Mr. Grauer was managing director and senior partner at Credit Suisse First Boston from 2000 to 2002, founding both DLJ Merchant Banking Partners and DLJ Investment Partners. He was managing director of DLJ from 1992 until Credit Suisse First Boston acquired it in 2000. Mr. Grauer serves as lead director of DaVita Health Care Partners, Inc. and Senior Independent Non-Executive Director of Glencore. He is a member of the Business Council, the Asia Business Council, the International Business Council of the World Economic Forum and Founding Chairman of the World Economic Forum Community of Chairmen. Mr. Grauer is also President of the Inner-City Scholarship Fund Board of Trustees, Chairman of the Rockefeller Finance & Operations Committee, Chair of the College Advising Corps, and a board member of Room to Read and the Prostate Cancer Foundation. He is Founding U.S. Chair of the 30% Club, a Member of the Advisory Council of Out on the Street, and the McKinsey Advisory Council.

**Richard H. Jenrette** is a member of the board of directors of our general partner. Mr. Jenrette was elected to the board of directors of our general partner effective July 14, 2008. Mr. Jenrette is the retired former Chairman and Chief Executive Officer of The Equitable Companies Incorporated and the co-founder and retired Chairman and Chief Executive Officer of DLJ. He is also a former Chairman of The Securities Industry Association and has served in the past as a director or trustee of The McGraw-Hill Companies, Advanced Micro Devices Inc., the American Stock Exchange, The Rockefeller Foundation, The Duke Endowment, the University of North Carolina, New York University and The National Trust for Historic Preservation.

**Rochelle B. Lazarus** is a member of the board of directors of our general partner. Ms. Lazarus was elected to the board of directors of our general partner effective July 9, 2013. Ms. Lazarus is Chairman Emeritus of Ogilvy & Mather and served as Chairman of that company from 1997 to June 2012. Prior to becoming Chief Executive Officer and Chairman, she also served as president of O&M Direct North America, Ogilvy & Mather New York, and Ogilvy & Mather North America. Ms. Lazarus currently serves on the boards of Merck & Co., Inc., General Electric (where she chairs the Governance and Public Affairs Committee), the Financial Industry Regulatory Authority (FINRA), World Wildlife Fund, Defense Business Board, Lincoln Center for the Performing Arts and the Partnership for New York City. She is a trustee of the New York Presbyterian Hospital and is a member of the Board of Overseers of Columbia Business School. She is also a member of the Council on Foreign Relations, The Women's Forum, Inc. and The Business Council.

**Jay O. Light** is a member of the board of directors of our general partner. Mr. Light was elected to the board of directors of our general partner effective September 18, 2008. Mr. Light is the Dean Emeritus of Harvard Business

School and the George F. Baker Professor of Administration Emeritus. Prior to that, Mr. Light was the Dean of Harvard Business School from 2006 to 2010. Before becoming the Dean of Harvard Business School, Mr. Light was Senior Associate Dean, Chairman of the Finance Area, and a professor teaching Investment Management, Capital Markets, and Entrepreneurial Finance for 30 years. Mr. Light is the lead director of the board of directors of HCA Holdings, Inc. and a member of the board of advisors of several private firms. Mr. Light was also previously a director of the Harvard Management Company and of Partners HealthCare (the Mass General and Brigham & Women's Hospitals), where he served as chairman of its Investment Committee until 2015. In prior years until 2008, Mr. Light was a Trustee of the GMO Trusts, a family of mutual funds for institutional investors.

**The Right Honorable Brian Mulroney** is a member of the board of directors of our general partner. Mr. Mulroney was elected to the board of directors of our general partner effective June 21, 2007. Mr. Mulroney is a senior partner and international business consultant for the Montreal law firm, Norton Rose Canada LLP. Prior to joining Norton Rose Canada, Mr. Mulroney was the eighteenth Prime Minister of Canada from 1984 to 1993 and leader of the Progressive Conservative Party of Canada from 1983 to 1993. He served as the Executive Vice President of the Iron Ore Company of Canada and President beginning in 1977. Prior to that, Mr. Mulroney served on the Cliché Commission of Inquiry in 1974. Mr. Mulroney is a Senior Advisor of Global Affairs at Barrick Gold Corporation, where he previously served as a member of the board of directors, and is the Chairman of their International Advisory Board. Mr. Mulroney is also Chairman of the board of directors of Quebecor Inc. and Quebecor Media Inc. and a member of the board of directors of Wyndham Worldwide Corporation. In prior years until 2009, Mr. Mulroney was a member of the board of directors of Archer Daniels Midland Company and Quebecor World Inc.

**William G. Parrett** is a member of the board of directors of our general partner. Mr. Parrett was elected to the board of directors of our general partner effective November 9, 2007. Until May 31, 2007, Mr. Parrett served as the Chief Executive Officer of Deloitte Touche Tohmatsu. Certain of the member firms of Deloitte Touche Tohmatsu or their subsidiaries and affiliates provide professional services to Blackstone or its affiliates. Mr. Parrett co-founded the Global Financial Services Industry practice of Deloitte and served as its first Chairman. Mr. Parrett is a member of the board of directors of Thermo Fisher Scientific Inc., where he chairs the audit committee and is a member of the compensation committee, and Eastman Kodak Company, where he chairs the audit committee. Mr. Parrett is also a member of the board of directors of UBS AG, where he chairs the audit committee and is a member of the corporate culture and responsibility and compensation committees. In addition, Mr. Parrett is Chairman of the board of directors of Conduent Inc., where he is a member of the governance and finance committees. Mr. Parrett is a member of the Board of Trustees of Carnegie Hall, a Senior Trustee of the United States Council for International Business and a past Chairman of the Board of Trustees of United Way Worldwide. Mr. Parrett is a Certified Public Accountant with an active license.

### **Board Composition**

Our general partner seeks to ensure that the board of directors of our general partner is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the board of directors of our general partner, Mr. Schwarzman takes into account (a) minimum individual qualifications, such as strength of character, mature judgment, industry knowledge or experience and an ability to work collegially with the other members of the board of directors, and (b) all other factors he considers appropriate.

After conducting an initial evaluation of a candidate, Mr. Schwarzman will interview that candidate if he believes the candidate might be suitable to be a director and may also ask the candidate to meet with other directors and senior management. If, following such interview and any consultations with senior management, Mr. Schwarzman believes a candidate would be a valuable addition to the board of directors, he will appoint that individual to the board of directors of our general partner.

When considering whether the board's directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the board to satisfy its oversight responsibilities effectively in light of the Partnership's

business and structure, Mr. Schwarzman focused on the information described in each of the board members' biographical information set forth above. In particular, with regard to Mr. Breyer, Mr. Schwarzman considered his extensive financial background and significant investment experience at Breyer Capital and Accel Partners. With regard to Mr. Grauer, Mr. Schwarzman considered his extensive financial background and significant management experience at Bloomberg L.P. With regard to Mr. Jenrette, Mr. Schwarzman considered his extensive financial background and experience in a variety of senior leadership roles, including his roles at DLJ and The Equitable Companies Incorporated. With regard to Ms. Lazarus, Mr. Schwarzman considered her extensive business background and her management experience in a variety of senior leadership roles at Ogilvy & Mather. With regard to Mr. Light, Mr. Schwarzman considered his distinguished career as a professor and dean at Harvard Business School with extensive knowledge and expertise of the investment management and capital markets industries. With regard to Mr. Mulroney, Mr. Schwarzman considered his distinguished career of government service, especially his service as the Prime Minister of Canada. With regard to Mr. Parrett, Mr. Schwarzman considered his significant experience, expertise and background with regard to auditing and accounting matters, his leadership role at Deloitte and his extensive experience serving as a director on boards of directors. With regard to Messrs. James, Hill, Goodman and Gray, Mr. Schwarzman considered their leadership and extensive knowledge of our business and operations gained through their years of service at our firm and with regard to himself, Mr. Schwarzman considered his role as founder and long-time chief executive officer of our firm.

### **Partnership Management and Governance**

Our general partner, Blackstone Group Management L.L.C., manages all of our operations and activities. Our general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business. Our partnership agreement provides that our general partner in managing our operations and activities is entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners, and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Blackstone Group Management L.L.C. is wholly owned by our senior managing directors and controlled by our founder, Mr. Schwarzman. Our common unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of our common unitholders are limited as set forth in our partnership agreement and in the Delaware Limited Partnership Act.

Blackstone Group Management L.L.C. does not receive any compensation from us for services rendered to us as our general partner. Our general partner is reimbursed by us for all expenses it incurs in carrying out its activities as general partner of the Partnership, including compensation paid by the general partner to its directors and the cost of directors and officers liability insurance obtained by the general partner.

The limited liability company agreement of Blackstone Group Management L.L.C. establishes a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Mr. Schwarzman will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner holding a majority in interest in our general partner. We refer to the board of directors of Blackstone Group Management L.L.C. as the "board of directors of our general partner." The board of directors of our general partner has a total of twelve members, including seven members who are not officers or employees, and are otherwise independent, of Blackstone and its affiliates, including our general partner.

The board of directors of our general partner has three standing committees: the audit committee, the conflicts committee and the executive committee.



**Audit Committee** . The audit committee consists of Messrs. Parrett (Chairman), Breyer, Grauer, Jenrette and Light and Ms. Lazarus. The purpose of the audit committee is, among other things, to assist the board of directors of Blackstone Group Management L.L.C. in fulfilling its responsibility with respect to its oversight of (a) the quality and integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) our independent auditor’s qualification, independence and performance, and (d) the performance of our internal audit function. The audit committee’s responsibilities also include review with management, the independent auditors and internal audit, areas of material risk to our operations and financial results, including major financial risks and exposures and our guidelines and policies with respect to risk assessment and risk management. The members of the audit committee meet the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the New York Stock Exchange listing standards and SEC rules applicable to audit committees. The board of directors of our general partner has determined that Mr. Parrett is an “audit committee financial expert” within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Parrett serves on the audit committees of four public companies, including Blackstone. The board of directors of our general partner determined at its January 2017 meeting that upon consideration of all relevant facts and circumstances known to the board of directors, Mr. Parrett’s simultaneous service on the audit committees of four public companies does not impair his ability to effectively serve on the audit committee of the board of directors of our general partner. The audit committee has a charter, which is available on our website at <http://ir.blackstone.com> under “Corporate Governance.”

**Conflicts Committee** . The conflicts committee consists of Messrs. Parrett (Chairman), Breyer, Grauer, Jenrette and Light and Ms. Lazarus. The conflicts committee reviews specific matters that our general partner’s board of directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of any conflict of interest submitted to it is fair and reasonable to the Partnership. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us and not a breach by us of any duties we may owe to our common unitholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under “— Item 13. Certain Relationships and Related Transactions, and Director Independence,” and may establish guidelines or rules to cover specific categories of transactions. The members of the conflicts committee meet the independence standards for service on an audit committee of a board of directors pursuant to federal and New York Stock Exchange rules relating to corporate governance matters.

**Executive Committee** . The executive committee of the board of directors of Blackstone Group Management L.L.C. consists of Messrs. Schwarzman, James, Hill, Goodman and Gray. The board of directors has delegated all of the power and authority of the full board of directors to the executive committee to act when the board of directors is not in session.

#### **Code of Business Conduct and Ethics**

We have a Code of Business Conduct and Ethics and a Code of Ethics for Financial Professionals, which apply to our principal executive officer, principal financial officer and principal accounting officer. Each of these codes is available on our website at <http://ir.blackstone.com> under “Corporate Governance.” We intend to disclose any amendment to or waiver of the Code of Ethics for Financial Professionals and any waiver of our Code of Business Conduct and Ethics on behalf of an executive officer or director either on our website or in an 8-K filing.

#### **Corporate Governance Guidelines**

The board of directors of our general partner has a governance policy, which addresses matters such as the board of directors’ responsibilities and duties and the board of directors’ composition and compensation. The governance policy is available on our website at <http://ir.blackstone.com> under “Corporate Governance.”

#### **Communications to the Board of Directors**

The non-management members of our general partner’s board of directors meet at least quarterly. The presiding director at these non-management board member meetings is Mr. Parrett. All interested parties, including any employee or unitholder, may send communications to the non-management members of our general partner’s board of directors by writing to: The Blackstone Group L.P., Attn: Audit Committee, 345 Park Avenue, New York, New York 10154.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the executive officers and directors of our general partner, and persons who own more than ten percent of a registered class of the Partnership's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish the Partnership with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2016, such persons complied with all such filing requirements, with the exception of the following late filings, in each case due to administrative oversight: a Form 4 report on February 16, 2016 by Ms. Solotar reflecting the exchange of Blackstone Holdings partnership units for an equal number of common units; a Form 4 report on August 26, 2016 by each of Mr. Chae, Ms. Solotar, Mr. Hill and Ms. Kathleen Skero reflecting a grant of Blackstone Holdings partnership units under the 2007 Equity Incentive Plan; and a Form 4 report on December 21, 2016 by Mr. Finley reflecting the exchange of Blackstone Holdings partnership units for an equal number of common units and the sale of units.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### ***Overview of Compensation Philosophy and Program***

The intellectual capital collectively possessed by our senior managing directors (including our named executive officers) and other employees is the most important asset of our firm. We invest in people. We hire qualified people, train them, encourage them to provide their best thinking to the firm for the benefit of the investors in the funds we manage, and compensate them in a manner designed to retain and motivate them and align their interests with those of the investors in our funds.

Our overriding compensation philosophy for our senior managing directors and certain other employees is that compensation should be composed primarily of (a) annual cash bonus payments tied to the performance of the applicable business unit(s) in which such employee works, (b) performance interests (composed primarily of carried interest and incentive fee interests) tied to the performance of the investments made by the funds in the business unit in which such employee works or for which he or she has responsibility, (c) deferred equity awards reflecting the value of our common units, and (d) additional cash payments and equity awards tied to extraordinary performance of such employee or other circumstances (for example, if there has been a change of role or responsibility). We believe base salary should represent a significantly lesser component of total compensation. We believe the appropriate combination of annual cash bonus payments and performance interests or deferred equity awards encourages our senior managing directors and other employees to focus on the underlying performance of our investment funds, as well as the overall performance of the firm and interests of our common unitholders. To that end, the primary form of compensation to our senior managing directors and other employees who work in our carry fund operations is generally a combination of annual cash bonus payments related to the performance of those carry fund operations, carried interest or incentive fee interests and, in specified cases, deferred equity awards. Along the same lines, the primary form of compensation to our senior managing directors and other employees who do not work in our carry fund operations is generally a combination of annual cash bonus payments tied to the performance of the applicable business unit in which such employee works and deferred equity awards.

Employees at higher total compensation levels are generally targeted to receive a greater percentage of their total compensation payable in annual cash bonuses, participation in performance interests, and deferred equity awards and a lesser percentage in the form of base salary compared to employees who are paid less. We believe that the proportion of compensation that is "at risk" should increase as an employee's level of responsibility rises.

Our compensation program includes significant elements that discourage excessive risk taking and aligns the compensation of our employees with the long-term performance of the firm. For example, notwithstanding the fact

that for accounting purposes we accrue compensation for the Performance Plans (as defined below) related to our carry funds as increases in the carrying value of the portfolio investments are recorded in those carry funds, we only make cash payments to our employees related to carried interest when profitable investments have been realized and cash is distributed first to the investors in our funds, followed by the firm and only then to employees of the firm. Moreover, if a carry fund fails to achieve specified investment returns due to diminished performance of later investments, our Performance Plans entitle us to “clawback” carried interest payments previously made to an employee for the benefit of the limited partner investors in that fund, and we escrow a portion of all carried interest payments made to employees to help fund their potential future “clawback” obligations, all of which further discourages excessive risk-taking by our employees. Similarly, for our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund’s portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period. In addition, and as noted below with respect to our named executive officers, the requirement that we have our professional employees invest in certain of the funds they manage directly aligns the interests of our professionals and our investors. In most cases, these investments represent a significant percentage of employees’ after-tax compensation. Lastly, because our equity awards have significant vesting or deferral provisions, the actual amount of compensation realized by the recipient will be tied directly to the long-term performance of our common units. In addition, in applicable jurisdictions, specifically in the European Union, our compensation program includes additional remuneration policies that may limit or otherwise alter the compensation for certain employees consistent with local regulatory requirements and aimed at, among other things, discouraging inappropriate risk taking and aligning compensation with the firm’s strategy and long-term interests consistent with our general compensation program.

We believe our current compensation and benefit allocations for senior professionals are best in class and are consistent with companies in the alternative asset management industry. We do not generally rely on compensation surveys or compensation consultants. Our senior management periodically reviews the effectiveness and competitiveness of our compensation program, and such reviews may in the future involve the assistance of independent consultants.

*Personal Investment Obligations* . As part of our compensation philosophy and program, we require our named executive officers to personally invest their own capital in and alongside the funds that we manage. We believe that this strengthens the alignment of interests between our executive officers and the investors in those investment funds. (See “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Investment in or Alongside Our Funds”.) In determining compensation for our named executive officers, we do not take into account the gains or losses attributable to the personal investments by our named executive officers in our investment funds.

For equity awards granted in 2014 and prior years, we also require each of our named executive officers to hold at least 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) throughout their employment with the firm and generally for one year following the termination of employment. We believe the continued ownership by our named executive officers of significant amounts of our equity through their direct and indirect interests in the Blackstone Holdings Partnerships affords significant alignment of interests with our common unitholders. For equity awards granted in 2015 and onward our named executive officers are required to hold 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) until the earlier of (1) ten years after the applicable vesting date and (2) one year following termination of employment.

### ***Named Executive Officers***

In 2016, our named executive officers were:

<u>Executive</u>	<u>Title</u>
Stephen A. Schwarzman	Chairman and Chief Executive Officer
Hamilton E. James	President, Chief Operating Officer
J. Tomilson Hill	Vice Chairman
Michael S. Chae	Chief Financial Officer
Joan Solotar	Senior Managing Director — Head of Private Wealth Solutions and External Relations

### ***Compensation Elements for Named Executive Officers***

The key elements of the compensation of the named executive officers listed in the tables below for 2016 were base compensation, which is composed of base salary, cash bonus and equity-based compensation, and performance compensation, which is composed of carried interest and incentive fee allocations:

1. Base Salary. Each named executive officer received a \$350,000 annual base salary in 2016, which equals the total yearly partnership drawings that were received by each of our senior managing directors prior to our initial public offering in 2007. In keeping with historical practice, we continue to pay this amount as a base salary.

2. Annual Cash Bonus Payments / Deferred Equity Awards. Since our initial public offering, Mr. Schwarzman has not received any cash compensation other than the \$350,000 annual salary described above and the actual realized carried interest distributions or incentive fees he may receive in respect of his participation in the carried interest or incentive fees earned from our funds through our Performance Plans described below. We believe that having Mr. Schwarzman's compensation largely based on ownership of a portion of the carried interest or incentive fees earned from our funds aligns his interests with those of the investors in our funds and our common unitholders.

Each of our named executive officers other than Mr. Schwarzman received annual cash bonus payments in 2016 in addition to their base salary. These cash payments included participation interests in the earnings of the firm's various investment businesses. Mr. Hill, who has primary responsibility for Hedge Fund Solutions, our funds of hedge funds operation, received a majority of his cash payments based upon the performance of that business. Indicative participation interests for each year were disclosed to a named executive officer at the beginning of such year and represented estimates of the expected percentage participation that such named executive officer may have had in the relevant business unit(s)' earnings for that same year. However, the ultimate cash payments paid to the named executive officers at the end of the year in respect of their participation interests were determined in the discretion of Mr. Schwarzman, and Mr. James, as described below. Earnings for a business unit are calculated based on the annual operating income of that business unit and are generally a function of the performance of such business unit, which is evaluated by Mr. Schwarzman and subject to modification by the firm in its sole discretion. The ultimate cash payment amounts were based on (a) the prior and anticipated performance of the named executive officer, (b) the prior and anticipated performance of the segments and product lines in which the officer serves and for which he has responsibility, and (c) the estimated participation interests given to the officer at the beginning of the year in respect of the investments to be made in that year. We make annual cash bonus payments in the first quarter of the ensuing year to reward individual performance for the prior year. The ultimate cash payments that are made are fully discretionary as further discussed below under "— Determination of Incentive Compensation."

For 2016, all employees other than Mr. Schwarzman and Mr. James were deemed eligible to participate in the Deferred Compensation Plan. The Deferred Compensation Plan provides for the deferral of a portion of each participant's annual cash bonus payment. The portion deferred is prescribed under the Deferred Compensation Plan and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. By deferring a portion of a participant's compensation for three years, the Deferred Compensation Plan acts as an employment retention mechanism and thereby enhances the alignment of interests between such participant and the firm. Many asset managers that are public companies utilize deferred compensation plans as a means of retaining and motivating their professionals, and we believe that it is in the interest of our common unitholders to do the same for our personnel.

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On January 13, 2017, Messrs. Hill, Chae and Ms. Solotar each received a deferral award under the Deferred Compensation Plan of deferred restricted common units in respect of their service in 2016. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. The percentage of the named executive officer's 2016 annual cash bonus payment mandatorily deferred into deferred restricted common units was approximately 40.9% for Mr. Hill, 10.1% for Mr. Chae and 23.1% for Ms. Solotar. These awards are reflected as stock awards for fiscal 2016 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2016 table.

3. Discretionary Equity Awards. In January 2016, Messrs. Hill, Chae and Ms. Solotar were each awarded a discretionary award of 54,986, 981,883 and 39,276 deferred restricted Blackstone Holdings Partnership Units, respectively. These awards reflected 2015 performance and were also intended to further promote retention and to incentivize future performance. In addition, with respect to Mr. Chae, the award was granted in recognition of his appointment to Chief Financial Officer effective August 7, 2015. The awards were granted under the 2007 Equity Incentive Plan on July 1, 2016, subject to the named executive officer's continued employment through such date. Other than with respect to Mr. Chae, whose outstanding award will vest annually in substantially equal installments over six years beginning in 2019, the awards will have the same vesting and other terms as the discretionary awards granted to Messrs. Hill and Solotar in 2015 in respect of 2014 performance, which terms are described under the caption "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Terms of Blackstone Holdings Partnership Units Granted in 2016 and Prior Years" below. These awards are reflected as stock awards for fiscal 2016 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2016 table.

In January 2017, Mr. Hill and Ms. Solotar were each awarded a discretionary award of deferred restricted Blackstone Holdings Partnership Units with a value of \$1,500,000 and \$1,000,000, respectively. These awards reflected 2016 performance and are also intended to further promote retention and to incentivize future performance. The awards will be granted under the 2007 Equity Incentive Plan and are expected to be granted on July 1, 2017, subject to the named executive officer's continued employment through such date. The awards will have the same vesting and other terms as the discretionary awards granted in 2016 in respect of 2015 performance. These awards will be reflected as stock awards for fiscal 2017 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2017 table.

4. Participation in Performance Fees. During 2016, all of our named executive officers participated in the carried interest of our carry funds or the incentive fees of our funds that pay incentive fees through their participation interests in the carry or incentive fee pools generated by these funds. The carry or incentive fee pool with respect to each fund in a given year is funded by a fixed percentage of the total amount of carried interest or incentive fees earned by Blackstone for such fund in that year. We refer to these pools and employee participation therein as our "Performance Plans" and payments made thereunder as performance payments. Because the aggregate amount of performance payments payable through our Performance Plans is directly tied to the performance of the funds, we believe this fosters a strong alignment of interests between the investors in those funds and these named executive officers, and therefore benefits our unitholders. In addition, most alternative asset managers, including several of our competitors, use participation in carried interest or incentive fees as a central means of compensating and motivating their professionals, and we believe that we must do the same in order to attract and retain the most qualified personnel. For purposes of our financial statements, we are treating the income allocated to all our personnel who have participation interests in the carried interest or incentive fees generated by our funds as compensation, and the amounts of carried interest and incentive fees earned by named executive officers are reflected as "All Other Compensation" in the Summary Compensation Table. Cash payments in respect of our Performance Plans for each named executive officer are determined on the basis of the percentage participation in the relevant investments previously allocated to that named executive officer, which percentage participations are established in January in each year in respect of the investments to be made in that year. The

percentage participation for a named executive officer may vary from year to year and fund to fund due to several factors, and may include changes in the size and composition of the pool of Blackstone personnel participating in such Performance Plan in a given year, the performance of our various businesses, new developments in our businesses and product lines, and the named executive officer's leadership and oversight of the business or corporate function for which the named executive officer is responsible and such named executive officer's contributions with respect to our strategic initiatives and development. In addition, certain of our employees, including our named executive officers, may participate in profit sharing initiatives whereby these individuals may receive allocations of investment income from Blackstone's firm investments. Our employees, including our named executive officers, may also receive equity awards in our investment advisory clients and/or be allocated securities of such clients that we have received.

(a) *Carried Interest.* Distributions of carried interest in cash (or, in some cases, in-kind) to our named executive officers and other employees who participate in our Performance Plans relating to our carry funds depends on the realized proceeds and timing of the cash realizations of the investments owned by the carry funds in which they participate. Our carry fund agreements also set forth specified preconditions to a carried interest distribution, which typically include that there must have been a positive return on the relevant investment and that the fund must be above its carried interest hurdle rate. In addition, as described below, employees or senior managing directors may also be required to have fulfilled specified service requirements in order to be eligible to receive carried interest distributions. For our carry funds, carried interest distributions for the named executive officer's participation interests are generally made to the named executive officer following the actual realization of the investment, although a portion of such carried interest is held back by the firm in respect of any future "clawback" obligation related to the fund. In allocating participation interests in the carry pools, we have not historically taken into account or based such allocations on any prior or projected triggering of any "clawback" obligation related to any fund. To the extent any "clawback" obligation were to be triggered, carried interest previously distributed to a named executive officer would have to be returned to the limited partners of such fund, thereby reducing the named executive officer's overall compensation for any such year. Moreover, because a carried interest recipient (including Blackstone itself) may have to fund more than his or her respective share of a "clawback" obligation under the governing documents (generally, up to an additional 50%), there is the possibility that the compensation paid to a named executive officer for any given year could be significantly reduced or even negative in the event a "clawback" obligation were to arise.

Participation in carried interest generated by our carry funds for all participating named executive officers other than Mr. Schwarzman is subject to vesting. Vesting serves as an employment retention mechanism and thereby enhances the alignment of interests between a participant in our Performance Plans and the firm. For carried interest allocated on or prior to December 31, 2012 and carried interest earned in certain of our credit funds, each participating named executive officer (other than Mr. Schwarzman) vests in 25% of the carried interest related to an investment immediately upon the closing of the investment by a carry fund with the remainder vesting in equal installments on the first through third anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such three-year anniversary, in which case such active executive officer is deemed 100% vested in the proceeds of such realizations). For carried interest allocated after December 31, 2012, the carried interest related to an investment vests in equal installments on the first through fourth anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such four-year anniversary, in which case such active executive officer is deemed 100% vested in the proceeds of such realizations). In addition, any named executive officer who is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See "— Non-Competition and Non-Solicitation Agreements — Retirement.") We believe that vesting of carried interest participation enhances the stability of our senior management team and provides greater incentives for our named executive officers to remain at the firm. Due to his unique status as a founder and the long-time chief executive officer of our firm, Mr. Schwarzman vests in 100% of his carried interest participation related to any investment by a carry fund upon the closing of that investment.

(b) *Incentive Fees.* Cash distributions of incentive fees to our named executive officers and other employees who participate in our Performance Plans relating to the funds that pay incentive fees depends on the performance of

the investments owned by those funds in which they participate. For our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period and following the calculation of the profit split (if any) between the fund's general partner or investment adviser and the fund's investors, which occurs once a year (generally December 31 or June 30 of each year).

(c) *Investment Advisory Client Interests*. BXMT is an investment advisory client of Blackstone. Compensation we receive from investment advisory clients in the form of securities may be allocated to employees and senior managing directors. For example, in 2016, Messrs. Schwarzman, James, Chae and Ms. Solotar were allocated restricted shares of listed common stock of BXMT in connection with investment advisory services provided by Blackstone to BXMT. The value of these allocated restricted shares is reflected as "All Other Compensation" in the Summary Compensation Table.

5. *Other Benefits*. Upon the consummation of our initial public offering in June 2007, we entered into a founding member agreement with our founder, Mr. Schwarzman, which provides specified benefits to him following his retirement. (See "— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Schwarzman Founding Member Agreement".) Mr. Schwarzman is provided certain security services, including home security systems and monitoring, and personal and related security services. These security services are provided for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Nevertheless, the expenses associated with these security services are reflected in the "All Other Compensation" column of the Summary Compensation Table below.

#### ***Determination of Incentive Compensation***

As our founder, Mr. Schwarzman sets his own compensation and reserves final approval of each named executive officer's compensation, based on recommendations from Mr. James. For 2016, these decisions were based primarily on Mr. Schwarzman's and Mr. James's assessment of such named executive officer's individual performance, operational performance for the segments or product lines in which the officer serves or for which he has responsibility, and the officer's potential to enhance investment returns for the investors in our funds and service to our advisory clients, and to contribute to long-term unitholder value. In evaluating these factors, Mr. Schwarzman and Mr. James relied upon their judgment to determine the ultimate amount of a named executive officer's annual cash bonus payment and participation in carried interest, incentive fees and investment advisory client interests that was necessary to properly induce the named executive officer to seek to achieve our objectives and reward a named executive officer in achieving those objectives over the course of the prior year. Key factors that Mr. Schwarzman considered in making such determination with respect to Mr. James were his service as President and Chief Operating Officer, his role in overseeing the growth and operations of the firm, and his leadership on the strategic direction of the firm generally. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Hill were his leadership and oversight of our Hedge Fund Solutions business, including his role in the oversight and development of new products and strategies, and his leadership on strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Chae were his leadership and oversight of our global finance, treasury, technology and corporate development function and his role in strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Ms. Solotar were her leadership and oversight of our external relations function, her role, as the head of Private Wealth Solutions, in expanding our delivery of products to meet the needs of individual investors and smaller institutions, as well as her role in strategic initiatives undertaken by the firm. For 2016, Mr. Schwarzman and Mr. James also considered each named executive officer's prior-year annual cash bonus payments, indicative participation interests disclosed to the named executive officer at the beginning of the year, his allocated share of performance interests through participation in our Performance Plans, the appropriate balance between incentives for long-term and short-term performance, and the compensation paid to the named executive officer's peers within the firm.

**Minimum Retained Ownership Requirements**

The minimum retained ownership requirements for our named executive are described below under “— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Terms of Blackstone Holdings Partnership Units Granted in 2016 and Prior Years — Minimum Retained Ownership Requirements.”

**Compensation Committee Report**

The board of directors of our general partner does not have a compensation committee. The members of the executive committee of the board of directors identified below have reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, have determined that the Compensation Discussion and Analysis should be included in this annual report.

*Stephen A. Schwarzman, Chairman*  
*Hamilton E. James*  
*J. Tomilson Hill*  
*Bennett J. Goodman*  
*Jonathan D. Gray*

**Compensation Committee Interlocks and Insider Participation**

As described above, we do not have a compensation committee. Our founder Mr. Schwarzman makes all such compensation determinations based in large part on recommendations from Mr. James. For a description of certain transactions between us and Mr. Schwarzman, see “— Item 13. Certain Relationships and Related Transactions, and Director Independence.”

**Summary Compensation Table**

The following table provides summary information concerning the compensation of our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated employees who served as executive officers at December 31, 2016, for services rendered to us. These individuals are referred to as our named executive officers in this annual report.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus (a)</u>	<u>Stock Awards (b)</u>	<u>All Other Compensation (c)</u>	<u>Total</u>
Stephen A. Schwarzman Chairman and Chief Executive Officer	2016	\$ 350,000	\$ —	\$ —	\$ 46,618,924	\$ 46,968,924
	2015	\$ 350,000	\$ —	\$ —	\$ 89,137,817	\$ 89,487,817
	2014	\$ 350,000	\$ —	\$ —	\$ 85,538,640	\$ 85,888,640
Hamilton E. James President Chief Operating Officer	2016	\$ 350,000	\$ 37,497,853	\$ —	\$ 20,446,203	\$ 58,294,056
	2015	\$ 350,000	\$ 35,246,105	\$ —	\$ 40,312,608	\$ 75,908,713
	2014	\$ 350,000	\$ 37,435,891	\$ 679,326	\$ 39,866,813	\$ 78,332,030
J. Tomilson Hill Vice Chairman	2016	\$ 350,000	\$ 7,524,212	\$ 6,975,943	\$ 1,551,849	\$ 16,402,004
	2015	\$ 350,000	\$ 9,253,650	\$ 5,521,215	\$ 1,634,816	\$ 16,759,681
	2014	\$ 350,000	\$ 13,557,310	\$ 11,243,928	\$ 789,052	\$ 25,940,290
Michael S. Chae Chief Financial Officer	2016	\$ 350,000	\$ 5,144,258	\$ 24,681,013	\$ 2,585,167	\$ 32,760,438
	2015	\$ 350,000	\$ 4,650,000	\$ —	\$ 6,976,078	\$ 11,976,078
Joan Solotar Head of Private Wealth Solutions and External Relations	2016	\$ 350,000	\$ 3,557,217	\$ 2,121,750	\$ 1,025,358	\$ 7,054,325
	2015	\$ 350,000	\$ 3,154,837	\$ 3,755,578	\$ 1,423,016	\$ 8,683,431
	2014	\$ 350,000	\$ 3,731,393	\$ 2,049,828	\$ 1,396,998	\$ 7,528,219

(a) The amounts reported in this column reflect the annual cash bonus payments made for performance in the indicated year.



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The amounts reported as “bonus” for 2016 for Messrs. Hill, Chae and Ms. Solotar are shown net of their respective mandatory deferral pursuant to the Deferred Compensation Plan. The deferred amounts for 2016 were as follows: Mr. Hill, \$5,207,936, Mr. Chae, \$578,159 and Ms. Solotar, \$1,072,783. For additional information on the Deferred Compensation Plan, see “— Nonqualified Deferred Compensation for 2016 — Narrative to Nonqualified Deferred Compensation for 2016 Table.”

- (b) The reference to “stock” in this table refers to deferred restricted Blackstone Holdings Partnership Units or deferred restricted common units. The amounts reported in this column represent the grant date fair value of stock awards granted for financial statement reporting purposes in accordance with GAAP pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data.”

Amounts reported for 2016 reflect the following deferred equity awards granted on January 13, 2017 for 2016 performance pursuant to the Deferred Compensation Plan: Mr. Hill, 187,065 deferred restricted common units with a grant date fair value of \$5,628,786, Mr. Chae, 20,767 deferred restricted common units with a grant date fair value of \$624,879 and Ms. Solotar, 38,534 deferred restricted common units with a grant date fair value of \$1,159,488. The grant date fair value of the stock award reflecting the deferred bonus amount is computed in accordance with GAAP and generally differs from the dollar amount of the portion of the bonus that is required to be deferred under the Deferred Compensation Plan. For additional information on the Deferred Compensation Plan, see “— Nonqualified Deferred Compensation for 2016 — Narrative to Nonqualified Deferred Compensation for 2016 Table.”

Amounts reported for 2016 also reflect the following discretionary equity awards granted on July 1, 2016 under the 2007 Equity Incentive Plan: Mr. Hill, 54,986 deferred restricted Blackstone Holdings Partnership Units, Mr. Chae, 981,883 deferred restricted Blackstone Holdings Partnership Units and Ms. Solotar, 39,726 deferred restricted Blackstone Holdings Partnership Units. The July 1, 2016 grant date fair value of the stock award reflecting the discretionary equity award amount is computed in accordance with GAAP and generally differs from the dollar amount of the discretionary equity award which was determined in January 2016.

- (c) Amounts reported for 2016 include cash payments in respect of carried interest or incentive fee allocations relating to our Performance Plans to the named executive officer in 2016 as follows: \$45,645,844 for Mr. Schwarzman, \$20,266,590 for Mr. James, \$2,535,126 for Mr. Chae, \$1,551,849 for Mr. Hill and \$1,005,342 for Ms. Solotar, respectively. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. For 2016, Messrs. Schwarzman, James and Chae were the only named executive officers who received such in-kind distributions. We have determined to present compensation relating to carried interest and incentive fees within the Summary Compensation Table in the year in which such compensation is paid to the named executive officer under the terms of the relevant Performance Plan. Accordingly, the amounts presented in the table differ from the compensation expense recorded by us on an accrual basis for such year in respect of carried interest and incentive fees allocable to a named executive officer, which accrued amounts for 2016 are separately disclosed in this footnote to the Summary Compensation Table. We believe that the presentation of the actual amounts of carried interest- and incentive fee-related compensation paid to a named executive officer during the year, instead of the amounts of compensation expense we have recorded on an accrual basis, most appropriately reflects the actual compensation received by the named executive officer and represents the amount most directly aligned with the named executive officer’s actual performance. By contrast, the amount of compensation expense accrued in respect of carried interest and incentive fees allocable to a named executive officer can be highly volatile from year to year, with amounts accrued in one year being reversed in a following year, and vice versa, causing such amounts to be less useful as a measure of the compensation actually earned by a named executive officer in any particular year.

To the extent compensation expense recorded by us on an accrual basis in respect of carried interest or incentive fee allocations (rather than cash payments) were to be included for 2016, the amounts would be \$72,907,527 for Mr. Schwarzman, \$39,398,580 for Mr. James, \$2,972,262 for Mr. Hill, \$7,654,408 for

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Mr. Chae and \$1,634,927 for Ms. Solotar. For financial statement reporting purposes, the accrual of compensation expense is equal to the amount of carried interest and incentive fees related to performance fee revenues as of the last day of the relevant period as if the performance fee revenues in the funds generating such carried interest or incentive fees were realized as of the last day of the relevant period.

With respect to Messrs. Schwarzman, James, Chae and Ms. Solotar, amounts shown for 2016 also include the value of restricted shares of listed common stock of BXMT allocated to such named executive officers based on the closing price of BXMT's common stock on the date of the award as follows: \$857,991 for Mr. Schwarzman, \$179,613 for Mr. James, \$50,041 for Mr. Chae and \$20,016 for Ms. Solotar. These restricted shares will vest over three years with one-third of the shares vesting at the end of the first year after the date of the award and the remaining shares vesting in eight equal quarterly installments thereafter.

With the exception of \$115,088 of expenses related to security services for Mr. Schwarzman in 2016, perquisites and other personal benefits to the named executive officers were less than \$10,000 and information regarding perquisites and other personal benefits has therefore not been included. As noted above under “— Compensation Discussion and Analysis — Compensation Elements for Named Executive Officers — Other Benefits,” we consider the expenses for security services for Mr. Schwarzman to be for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Mr. Schwarzman makes business and personal use of a car and driver and he and members of his family also make occasional business and personal use of an airplane in which we have a fractional interest and in each case he bears the full cost of such personal usage. In addition, certain Blackstone personnel administer personal matters for Mr. Schwarzman and certain matters for the Stephen A. Schwarzman Education Foundation (“SASEF”), and Mr. Schwarzman and SASEF, respectively, bear the full incremental cost to us of such personnel. There is no incremental expense incurred by us in connection with the use of any car and driver, airplane or personnel by Mr. Schwarzman, as described above.

During 2016, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$24,466 to Mr. Schwarzman, \$1,048 to Mr. James, \$5,041 to Mr. Hill and \$485 to Ms. Solotar.

### Grants of Plan-Based Awards in 2016

The following table provides information concerning unit awards granted in 2016 or, for deferred restricted common units granted under the Deferred Compensation Plan, with respect to 2016, to our named executive officers:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (a)	Grant Date Fair Value of Stock and Option Awards (a)
Stephen A. Schwarzman	—	—	\$ —
Hamilton E. James	—	—	\$ —
J. Tomilson Hill	7/1/2016	54,986(b)	\$ 1,347,157
	1/13/2017	187,065(c)	\$ 5,628,786
Michael S. Chae	7/1/2016	981,883(b)	\$24,056,134
	1/13/2017	20,767(c)	\$ 624,879
Joan Solotar	7/1/2016	39,276(b)	\$ 962,262
	1/13/2017	38,534(c)	\$ 1,159,488

- (a) The references to “stock” or “shares” in this table refer to deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units.  
(b) Represents deferred restricted Blackstone Holdings Partnership Units granted under our 2007 Equity Incentive Plan and reflects 2015 performance.

- (c) Represents deferred restricted common units granted in 2016 under the Deferred Compensation Plan for 2016 performance. (See “— Nonqualified Deferred Compensation for 2016 — Narrative to Nonqualified Deferred Compensation for 2016 Table.”) These grants are reflected in the “Stock Awards” column of the Summary Compensation Table in 2016.

## **Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016**

### ***Terms of Blackstone Holdings Partnership Units Granted in 2016 and Prior Years***

Our pre-IPO owners, including our named executive officers other than Ms. Solotar, received Blackstone Holdings Partnership Units in the reorganization in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings and in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution. Ms. Solotar received grants of Blackstone Holdings Partnership Units following the commencement of her employment with us under our 2007 Equity Incentive Plan. Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, these partnership units may be exchanged for our common units as described under “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement” below.

*Vesting Provisions* . All of the Blackstone Holdings Partnership Units received in the reorganization by the named executive officers (other than Ms. Solotar) in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings are now fully vested. All of the Blackstone Holdings Partnership Units received in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested. All of the Blackstone Holdings Partnership Units granted to Ms. Solotar following the commencement of her employment with us are also now fully vested.

The 40,907 deferred restricted Blackstone Holdings Partnership Units granted to Ms. Solotar in 2012 under the 2007 Equity Incentive Plan vested 20% on July 1, 2015, 30% on July 1, 2016 and vest 50% on July 1, 2017. The 11,578 deferred restricted Blackstone Holdings Partnership Units granted to Ms. Solotar, in 2013 under the 2007 Equity Incentive Plan vested 20% on July 1, 2016, vest 30% on July 1, 2017 and 50% on July 1, 2018. The 31,071 deferred restricted Blackstone Holdings Partnership Units granted to Ms. Solotar in 2014 under the 2007 Equity Incentive Plan vest 20% on July 1, 2017, 30% on July 1, 2018 and 50% on July 1, 2019. The 23,558 and 70,674 deferred restricted Blackstone Holdings Partnership Units granted in 2015 to Mr. Hill and Ms. Solotar, respectively, under the 2007 Equity Incentive Plan vest 20% on July 1, 2018, 30% on July 1, 2019 and 50% on July 1, 2020. The 54,986 and 39,276 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Hill and Ms. Solotar, respectively, in 2016 under the 2007 Equity Incentive Plan vest 20% on July 1, 2019, 30% on July 1, 2020 and 50% on July 1, 2021. The 981,883 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Chae in 2016 under the 2007 Equity Incentive Plan vest annually in substantially equal installments over six years beginning in 2019.

Except as described below, unvested deferred restricted Blackstone Holdings Partnership Units are generally forfeited upon termination of employment. With respect to Ms. Solotar, the deferred restricted Blackstone Holdings Partnership Units granted to her in 2013 and 2014 will become fully vested if she is terminated by us without cause. In addition, upon the death or permanent disability of a named executive officer, all of his unvested deferred restricted Blackstone Holdings Partnership Units held at that time will vest immediately. In connection with a named executive officer’s termination of employment due to qualifying retirement, with respect to unvested deferred restricted Blackstone Holdings Partnership Units granted in 2014 and prior years, 50% of such units will generally be entitled to accelerated vesting and, with respect to unvested deferred restricted Blackstone Holdings Partnership Units granted in 2015 and 2016, 50% of such units will continue to vest and be delivered over the vesting period, subject to forfeiture if the named executive officer violates any applicable provision of his employment agreement or engages in any competitive activity (as such term is defined in the applicable award agreement). (See “Non-Competition and Non-Solicitation Agreements — Retirement.”) Further, in the event of a

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change in control (defined in the Blackstone Holdings partnership agreements as the occurrence of any person becoming the general partner of The Blackstone Group L.P. other than a person approved by the current general partner), any Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units will automatically be deemed vested as of immediately prior to such change in control.

All vested and unvested Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units (and our common units received in exchange for such Blackstone Holdings Partnership Units) held by a named executive officer will be immediately forfeited in the event he materially breaches any of his restrictive covenants set forth in the non-competition and non-solicitation agreement outlined under “Non-Competition and Non-Solicitation Agreements” or his service is terminated for cause.

*Cash Distribution Equivalents.* All unvested Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units are entitled to the payment of current cash distribution equivalents. In accordance with the SEC’s rules, the current cash distribution equivalents are not required to be reported in the Summary Compensation Table because the amounts of future cash distributions are factored into the grant date fair value of the awards.

*Minimum Retained Ownership Requirements .* For units granted in 2014 and prior years, while employed by us and generally for one year following the termination of employment, each of our named executive officers (except as otherwise provided below) will be required to continue to hold (and may not transfer) at least 25% of all vested units (other than vested units awarded under our Deferred Compensation Plan) received by him. For units granted in 2015 and future years each of our named executive officers (except as otherwise provided below) will be required to hold 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) until the earlier of (1) ten years after the applicable vesting date and (2) one year following termination of employment. The requirement that one continue to hold at least 25% of such vested units is subject to the qualification in Mr. Schwarzman’s case that in no event will he be required to hold units having a market value greater than \$1.5 billion. Each of our named executive officers is in compliance with these minimum retained ownership requirements.

*Transfer Restrictions .* None of our named executive officers may transfer Blackstone Holdings Partnership Units other than pursuant to transactions or programs approved by our general partner.

This transfer restriction applies to sales, pledges of Blackstone Holdings Partnership Units, grants of options, rights or warrants to purchase Blackstone Holdings Partnership Units or swaps or other arrangements that transfer to another, in whole or in part, any of the economic consequences of ownership of the Blackstone Holdings Partnership Units other than as approved by our general partner. We expect that our general partner will approve pledges or transfers to personal planning vehicles beneficially owned by the families of our pre-IPO owners and charitable gifts, provided that the pledgee, transferee or donee agrees to be subject to the same transfer restrictions (except as specified above with respect to Mr. Schwarzman). Transfers to Blackstone are also exempt from the transfer restrictions.

The transfer restrictions set forth above will continue to apply generally for one year following the termination of employment of a named executive officer other than Mr. Schwarzman for any reason, except that the transfer restrictions set forth above will lapse upon death or permanent disability. The transfer restrictions will lapse in the event of a change in control (as defined above).

The Blackstone Holdings Partnership Units received by other Blackstone personnel in the reorganization and pursuant to the 2007 Equity Incentive Plan are also generally subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to our named executive officers other than Mr. Schwarzman, although non-senior managing directors are also generally subject to vesting in respect of a portion of the Blackstone Holdings Partnership Units received by such personnel in the reorganization in exchange for their interests in carried interest.

**Schwarzman Founding Member Agreement**

Upon the consummation of our initial public offering, we entered into a founding member agreement with Mr. Schwarzman. Mr. Schwarzman's agreement provides that he will remain our Chairman and Chief Executive Officer while continuing service with us and requires him to give us six months' prior written notice of intent to terminate service with us. The agreement provides that following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including that he will be permitted until the third anniversary of his retirement date to retain his current office and will be provided with a car and driver. Commencing on the third anniversary of his retirement date and continuing until the tenth anniversary thereof, we will provide him with an appropriate office if he so requests. Additionally, Mr. Schwarzman will be provided with an assistant and access to office services during the ten-year period following his retirement date.

Mr. Schwarzman will also continue to receive health benefits following his retirement until his death, subject to his continuing payment of the related health insurance premiums consistent with current policies. Additionally, before his retirement and during the ten-year period thereafter, Mr. Schwarzman and any foundations he may establish may continue to invest in our investment funds on a basis generally consistent with that of other partners.

**Senior Managing Director Agreements**

Upon the consummation of our initial public offering, we entered into substantially similar senior managing director agreements with each of our named executive officers and other senior managing directors other than our founder and Ms. Solotar. Senior managing directors who have joined the firm after our initial public offering (including Ms. Solotar) have also entered into senior managing director agreements. The agreements generally provide that each senior managing director will devote substantially all of his or her business time, skill, energies and attention to us in a diligent manner. Each senior managing director will be paid distributions and benefits in amounts determined by Blackstone from time to time in its sole discretion. The agreements require us to provide the senior managing director with 90 days' prior written notice prior to terminating his or her service with us (other than a termination for cause). Additionally, the agreements require each senior managing director to give us 90 days' prior written notice of intent to terminate service with us and require the senior managing director to be placed on a 90-day period of "garden leave" following the senior managing director's termination of service (as further described under the caption "— Non-Competition and Non-Solicitation Agreements" below).

**Outstanding Equity Awards at 2016 Fiscal Year End**

The following table provides information regarding outstanding unvested equity awards made to our named executive officers as of December 31, 2016.

<u>Name</u>	<u>Stock Awards (a)</u>	
	<u>Number of Shares or Units of Stock That Have Not Vested</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (b)</u>
Stephen A. Schwarzman	—	\$ —
Hamilton E. James (c)	—	\$ —
J. Tomilson Hill (c)	245,455	\$ 6,634,649
Michael Chae	1,002,650	\$ 27,165,177
Joan Solotar	267,968	\$ 7,361,089

- (a) The references to "stock" or "shares" in this table refer to unvested deferred restricted Blackstone Holdings Partnership Units and unvested deferred restricted common units granted under the Deferred Compensation Plan (including deferred restricted common units granted to Mr. Chae and Ms. Solotar in 2017 in respect of 2016 performance and the unvested premium portion of deferred restricted common units granted to Mr. Hill under the Deferred Compensation Plan). The vesting terms of these awards are described under the captions "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Terms of

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Blackstone Holdings Partnership Units Granted in 2016 and Prior Years” above and “— Nonqualified Deferred Compensation for 2016 — Narrative to Nonqualified Deferred Compensation for 2016 Table” below.

- (b) The dollar amounts shown under this column were calculated by multiplying the number of unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by the named executive officer by the closing market price of \$27.03 per Blackstone common unit on December 31, 2016, the last trading day of 2016, other than the deferred restricted common units granted in 2017 in respect of 2016 performance, which are valued as of the date of their grant.
- (c) This table does not reflect (1) undelivered deferred restricted common units that were granted to Messrs. James and Hill in 2015 pursuant to the Deferred Compensation Plan in respect of 2014 performance that were considered vested on the date of grant due to their retirement eligibility, (2) undelivered deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in 2017 in respect of 2016 performance and in 2016 in respect of 2015 performance that, in each case, were considered vested on the date of grant due to his retirement eligibility and (3) mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in respect of 2013 and 2012. These deferred restricted common units are reflected in the Nonqualified Deferred Compensation for 2016 Table below.

**Option Exercises and Stock Vested in 2016**

The following table provides information regarding the number of outstanding initially unvested equity awards made to our named executive officers that vested during 2016 or, for deferred restricted common units granted to Mr. Hill under the Deferred Compensation Plan, with respect to 2016:

<u>Name</u>	<u>Stock Awards (a)</u>	
	<u>Number of Shares Acquired on Vesting</u>	<u>Value Realized on Vesting (b)</u>
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	—	\$ —
J. Tomilson Hill (c)	214,558	\$ 6,302,364
Michael S. Chae	—	\$ —
Joan Solotar	234,715	\$ 6,745,454

- (a) The references to “stock” or “shares” in this table refer to deferred restricted Blackstone Holdings Partnership Units and our deferred restricted common units.
- (b) The value realized on vesting is based on the closing market prices of our common units on the day of vesting.
- (c) For Mr. Hill, includes 187,065 deferred restricted common units granted pursuant to the Deferred Compensation Plan in 2017 in respect of 2016 performance, with a value realized on vesting of \$5,628,786, which were all considered vested and undelivered on the date of grant due to Mr. Hill’s retirement eligibility. These deferred restricted common units are scheduled to be delivered in equal annual installments over the three year deferral period and are reflected in the Nonqualified Deferred Compensation for 2016 Table below.

**Nonqualified Deferred Compensation for 2016**

The following table provides information with respect to (1) undelivered deferred restricted common units that were granted to Messrs. James and Hill in 2015 pursuant to the Deferred Compensation Plan in respect of 2014 performance that were considered vested on the date of grant due to their retirement eligibility, (2) undelivered deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in 2017 in respect of 2016 performance and in 2016 in respect of 2015 performance that, in each case, were considered vested on the date of grant due to his retirement eligibility and (3) mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in respect of 2013 and 2012.

<u>Name</u>	<u>Executive Contributions in 2016</u>	<u>Registrant Contributions in 2016 (a)</u>	<u>Aggregate Earnings (Losses) in 2016 (b)</u>	<u>Aggregate Withdrawals/ Distributions (c)</u>	<u>Aggregate Balance at December 31, 2016 (d)</u>
Stephen A. Schwarzman	\$ —	\$ —	\$ —	\$ —	\$ —
Hamilton E. James	\$ —	\$ —	\$ (15,100)	\$ 214,895	\$ 369,338
J. Tomilson Hill	\$ —	\$ 5,628,786	\$ (463,687)	\$ 8,831,973	\$ 24,792,380
Michael S. Chae	\$ —	\$ —	\$ —	\$ —	\$ —
Joan Solotar	\$ —	\$ —	\$ —	\$ —	\$ —

- (a) This column represents the mandatory deferral of a portion of Mr. Hill’s annual cash bonuses for 2016 into 187,065 deferred restricted common units pursuant to our Deferred Compensation Plan. These units were granted to Mr. Hill in 2017 in respect of 2016 performance. These deferred restricted common units are deemed vested due to retirement eligibility, but will be delivered in equal annual installments over three years. This amount is also reflected in the “Stock Awards” column of the Summary Compensation Table for the last completed fiscal year (see footnote (b) to the Summary Compensation Table).
- (b) This column represents (1) the earnings/(losses) during 2016 on deferred restricted common units granted to Messrs. James and Hill pursuant to our Deferred Compensation Plan through the earlier of their delivery or December 31, 2016 and (2) the payment of current cash distribution equivalents on deferred restricted common units granted to Messrs. James and Hill pursuant to the Deferred Compensation Plan in 2015 in respect of 2014 and in 2016 in respect of 2015 through the earlier of their delivery or December 31, 2016. No portion of any earnings would be considered above-market or preferential and, accordingly, no earnings are reflected in the Summary Compensation Table.
- (c) This column represents (1) the value of 6,833 and 300,351 deferred common units that were delivered to Messrs. James and Hill, respectively, in 2016 based on the closing market price per Blackstone common unit on the date(s) of delivery and (2) the payment of current cash distribution equivalents on deferred restricted common units granted to Messrs. James and Hill pursuant to the Deferred Compensation Plan in 2015 in respect of 2014 and in 2016 in respect of 2015.
- (d) Represents the value as of December 31, 2016 of 13,664 deferred restricted common units granted to Mr. James and 896,040 deferred restricted common units granted to Mr. Hill. With respect to Messrs. James and Hill, \$452,862 and \$19,128,306 has been previously reported in the “Stock Awards” column of the Summary Compensation Table, respectively. The values set forth in this column are based on the closing market price of \$27.03 per Blackstone common units on December 30, 2016, other than the units granted in 2017 in respect of 2016 performance, which are valued as of the date of their grant.

***Narrative to Nonqualified Deferred Compensation for 2016 Table***

In 2007, we established our Deferred Compensation Plan (which we also refer to as our “Bonus Deferral Plan”) for certain eligible employees of Blackstone and certain of its affiliates in order to provide such eligible employees with a pre-tax deferred incentive compensation opportunity and to enhance the alignment of interests between such eligible employees and Blackstone and its affiliates. The Deferred Compensation Plan is an unfunded, nonqualified deferred compensation plan which provides for the automatic, mandatory deferral of a portion of each participant’s annual cash bonus payment.

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At the end of each year, the Plan Administrator (as defined in the Deferred Compensation Plan) selects plan participants in its sole discretion and notifies such individuals that they have been selected to participate in the Deferred Compensation Plan for such year. Participation is mandatory for those employees selected by the Plan Administrator to be participants. An individual, if selected, may not decline to participate in the Deferred Compensation Plan and an individual who is not so selected may not elect to participate in the Deferred Compensation Plan. The selection of participants is made on an annual basis; an individual selected to participate in the Deferred Compensation Plan for a given year may not necessarily be selected to participate in a subsequent year. For 2016, all employees other than Mr. Schwarzman and Mr. James were deemed eligible to participate in the Deferred Compensation Plan, with the deferred amount (if any) determined in accordance with the table described below. Accordingly, Messrs. Hill, Chae and Ms. Solotar each participated in the Deferred Compensation Plan for 2016.

In respect of the deferred portion of his or her annual cash bonus payment, each participant receives deferral units which represent rights to receive in the future a specified amount of common units or Blackstone Holdings Partnership Units or other equity-based awards under our 2007 Equity Incentive Plan, subject to vesting provisions described below. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds, and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. For deferrals of 2016 annual cash bonus payments, the deferral percentage was calculated on the basis set forth in the following table (or such other table that may be adopted by the Plan Administrator).

<u>Portion of Annual Incentive</u>	<u>Marginal Deferral Rate Applicable to Such Portion</u>	<u>Effective Deferral Rate for Entire Annual Bonus (a)</u>
\$0 - 100,000	0%	0.0%
\$100,001 - 200,000	15%	7.5%
\$200,001 - 500,000	20%	15.0%
\$500,001 - 750,000	30%	20.0%
\$750,001 - 1,250,000	40%	28.0%
\$1,250,001 - 2,000,000	45%	34.4%
\$2,000,001 - 3,000,000	50%	39.6%
\$3,000,001 - 4,000,000	55%	43.4%
\$4,000,001 - 5,000,000	60%	46.8%
\$5,000,000 +	65%	52.8%

- (a) Effective deferral rates are shown for illustrative purposes only and are based on an annual cash payment equal to the maximum amount in the range shown in the far left column (which is assumed to be \$7,500,000 for the last range shown).

*Mandatory Deferral Awards*. Generally, deferral units are satisfied by delivery of our common units in equal annual installments over the deferral period, which was three years for grants made in respect of years prior to 2012 and four years for grants made in respect of years 2012 and 2013 (with no partial-year delivery). In 2015, the Deferred Compensation Plan was amended to return the deferral period to three years for grants made in respect of 2014 and subsequent years. Delivery of our common units underlying vested deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, any undelivered deferral units (vested and unvested) will become immediately deliverable. With respect to deferral units granted in respect of 2013 and prior years, if the participant's employment is terminated without cause



or because of resignation, qualifying retirement or disability, the participant's deferral units will continue to be delivered over the applicable deferral period. However, if, following a termination of employment without cause or because of resignation, qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement (or, in the case of a resignation, engages in a competitive business (as such term is defined in his or her employment agreement)), then any deferral units that remain undelivered as of the date of such violation, will be immediately forfeited. In 2015, the Deferred Compensation Plan was amended to modify the terms of the mandatorily deferred restricted common units to provide that unvested bonus deferral awards in respect of 2014 and subsequent years will now be forfeited upon resignation, will immediately vest and be delivered if the participant's employment is terminated without cause or because of disability and, in connection with a qualifying retirement, will continue to vest and be delivered over the applicable deferral period, subject to forfeiture if the participant violates any applicable provision of his her employment agreement or engages in any competitive activity (as such term is defined in the Deferred Compensation Plan).

The 59,301 deferred restricted common units granted under the Deferred Compensation Plan to Mr. Chae and Ms. Solotar in 2017 for 2016 performance vest 33.3% on January 1, 2018, 33.3% on January 1, 2019 and 33.4% on January 1, 2020.

*Premium Awards* . Prior to deferrals in respect of 2014 performance, each plan participant was eligible to receive a premium award in the amount equal to a percentage of his or her deferral amount. The percentage was selected by the Plan Administrator. Generally, except in respect of 2012, the premium award percentage was 20%. Generally, the premium award percentage in respect of 2012 was 25%. The deferral amount plus the premium award yielded the total amount of deferral units that a participant was awarded for any given year. The entire premium portion of such deferral units is, with specified exceptions, subject to continued employment of such participant through the end of the applicable deferral period and vests and is delivered at the end of such deferral period. As is the case with respect to the mandatory deferral units, delivery of our common units underlying the vested premium portion of the participant's deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the premium portion of the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. In connection with a participant's termination of employment without cause or because of resignation, the entire unvested premium portion of the participant's deferral units will be immediately forfeited. In connection with a participant's termination of employment due to qualifying retirement, 50% of the unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. In connection with a participant's termination of employment due to disability, the entire unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. However, if, following a termination of employment because of qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement, including specified restrictive covenants such as a non-compete, then any such deferral units that remain undelivered as of the date of such violation will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, the entire unvested premium portion of the participant's deferral units will immediately vest and become deliverable. In 2015, the Deferred Compensation Plan was amended to replace the premium award component of the plan with the payment of current cash distribution equivalents on both vested and unvested deferred awards beginning with awards granted in 2015 in respect of 2014. As a result, no premium awards were granted in 2016 in respect of 2015 performance.

The 166,537 deferred restricted common units granted to Mr. Hill as premium awards under the Deferred Compensation Plan, vested 50.2% on January 1, 2017 and the remaining 49.8% vest on January 13, 2018.

#### **Potential Payments Upon Termination of Employment or Change in Control**

Upon a change of control event where any person (other than a person approved by our general partner) becomes our general partner or a termination of employment because of death, any unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by any of our named

executive officers will automatically be deemed vested as of immediately prior to such occurrence of such change of control or such termination of employment. Had such a change of control or such a termination of employment occurred on December 30, 2016, the last business day of 2016, each of our named executive officers would have vested in the following numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted common units, having the following values based on our closing market price of \$27.03 per Blackstone common unit on December 30, 2016, other than the deferred restricted common units granted in 2017 in respect of 2016 performance, which are valued as of the date of their grant: Messrs. Schwarzman and James had no outstanding unvested units at December 31, 2016; Mr. Hill — 78,918 deferred restricted Blackstone Holdings Partnership Units and 166,537 deferred restricted common units, representing the premium portion of his deferred restricted common units, with an aggregate value of \$6,634,649; Mr. Chae — 981,883 deferred restricted Blackstone Holdings Partnership Units and 20,767 deferred restricted common units with an aggregate value of \$27,165,177 and Ms. Solotar — 172,827 deferred restricted Blackstone Holdings Partnership Units and 95,141 deferred restricted common units with an aggregate value of \$7,361,089. In addition, the Deferred Compensation Plan provides that upon a change in control or termination of the participant's employment because of death, any fully vested but undelivered deferred restricted common units will become immediately deliverable. Therefore, had a change of control or such termination of employment occurred on December 30, 2016, Mr. James and Mr. Hill would also have been entitled to accelerated delivery of the 13,664 and 605,115 deferred restricted common units, respectively, that were granted to them pursuant to the Deferred Compensation Plan, and were considered vested on the date of grant due to their retirement eligibility. Mr. Hill would also have been entitled to accelerated delivery of his 290,925 mandatorily deferred and vested, but undelivered, deferred restricted common units granted to him under the Deferred Compensation Plan in respect of 2013 and 2012 that were outstanding as of December 31, 2016.

Upon a termination of employment because of disability, any unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units granted under the Deferred Compensation Plan in respect of 2014 and subsequent years will also automatically be deemed vested. However, with respect to the premium portion of deferred restricted common units granted under the Deferred Compensation Plan in respect of 2013 and prior years, in connection with a participant's termination of employment due to disability, such deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to the participant not violating any applicable provision of his or her employment agreement. Therefore, had a termination of employment because of disability occurred on December 30, 2016, each of our named executive officers would have vested in the numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted common units set forth in the paragraph immediately above, having the values set forth above, but Mr. Hill would not have immediately vested in his 166,537 unvested deferred restricted common units, which represent the premium portion of his deferred restricted common units. In addition, Mr. James and Mr. Hill would also have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth in the paragraph immediately above that were granted to them pursuant to the Deferred Compensation Plan, which are considered vested due to their retirement eligibility.

In connection with a named executive officer's termination of employment due to qualifying retirement, a named executive officer will generally immediately vest in 50% of their unvested deferred restricted Blackstone Holdings Partnership Units granted in 2014 and prior years and, with respect to unvested deferred restricted Blackstone Holdings Partnership Units granted in 2015 and 2016, 50% of such units will continue to vest and be delivered over the vesting period, subject to forfeiture if the named executive officer violates any applicable provision of his employment agreement or engages in any competitive activity (as such term is defined in the applicable award agreement). (See "Non-Competition and Non-Solicitation Agreements — Retirement.") As of December 30, 2016, Mr. James and Mr. Hill were retirement eligible. Mr. James had no outstanding unvested units at December 30, 2016. If Mr. Hill had retired on December 30, 2016, then the Deferred Compensation Plan provides that 50% of the unvested premium portion of his deferred restricted common units would continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to forfeiture of any deferral units which remain undelivered as of the date of the breach of any applicable provision of his employment agreement.

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Upon a termination of Mr. Chae's and Ms. Solotar's employment without cause, the deferred restricted common units granted to them under the Deferred Compensation Plan in respect of 2016, 2015 and 2014, as applicable, will become fully vested. Upon a termination of Ms. Solotar's employment without cause, the unvested deferred restricted the Blackstone Holdings Partnership Units granted to her in 2013 and 2014 will become fully vested. Had such a termination of employment occurred on December 30, 2016, the last business day of 2016, each of Mr. Chae and Ms. Solotar would have vested in the following numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted common units, respectively, having the following values based on our closing market price of \$27.03 per Blackstone common unit on December 30, 2016, other than the deferred restricted common units granted in 2017 in respect of 2016 performance, which are valued as of the date of their grant: Mr. Chae — 20,767 deferred restricted common units with a value of \$624,879 and Ms. Solotar — 40,975 deferred restricted Blackstone Holdings Partnership Units with a value of \$1,107,554 and 95,141 deferred restricted common units with an aggregate value of \$2,689,575.

Upon a termination without cause, Mr. James and Mr. Hill would have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth above in the first paragraph of this section that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility.

In addition, except as described below, unvested carried interest in our carry funds is generally forfeited upon termination of employment. Upon the death or disability of any named executive officer who participates in the carried interest of our carry funds, the named executive officer will be deemed 100% vested in any unvested portion of carried interest in our carry funds. Furthermore, any named executive officer that is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See “—Non-Competition and Non-Solicitation Agreements — Retirement.”) As of December 30, 2016, Mr. James and Mr. Hill were retirement eligible for purposes of their carried interest allocations.

In addition, pursuant to Mr. Schwarzman's Founding Member Agreement described above under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Schwarzman Founding Member Agreement,” following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including an assistant during the ten-year period following his retirement and a car and driver during the three-year period following his retirement. As of December 30, 2016, the aggregate present value of these expected costs was \$1.6 million, for which \$209,000, \$158,000 and \$180,000 were expensed for financial statement purposes in each of the years ended December 31, 2016, 2015 and 2014, respectively.

#### **Non-Competition and Non-Solicitation Agreements**

Upon the consummation of our initial public offering, we entered into a non-competition and non-solicitation agreement with our founder, our other senior managing directors, most of our other professional employees and specified senior administrative personnel to whom we refer collectively as “Contracting Employees.” Contracting Employees who have joined the firm after our initial public offering have also executed non-competition and non-solicitation agreements. The following are descriptions of the material terms of each such non-competition and non-solicitation agreement. With the exception of the few differences noted in the description below, the terms of each non-competition and non-solicitation agreement are generally in relevant part similar.

*Full-Time Commitment* . Each Contracting Employee agrees to devote substantially all of his or her business time, skill, energies and attention to his or her responsibilities at Blackstone in a diligent manner. Our founder Mr. Schwarzman has agreed that our business will be his principal business pursuit and that he will devote such time and attention to the business of the firm as may be reasonably requested by us.

*Confidentiality* . Each Contracting Employee is required, whether during or after his or her employment with us, to protect and only use “confidential information” in accordance with strict restrictions placed by us on its use and disclosure. (Every employee of ours is subject to similar strict confidentiality obligations imposed by our Code of Conduct applicable to all Blackstone personnel.)

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*Notice of Termination* . Each Contracting Employee is required to give us prior written notice of his or her intention to leave our employ — six months in the case of Mr. Schwarzman, 90 days for all of our other senior managing directors and between 30 and 60 days in the case of all other Contracting Employees.

*Garden Leave* . Upon his or her voluntary departure from our firm, a Contracting Employee is required to take a prescribed period of “garden leave.” The period of garden leave is 90 days for our non-founding senior managing directors and between 30 and 60 days for all other Contracting Employees. During this period the Contracting Employee will continue to receive some of his or her Blackstone compensation and benefits, but is prohibited from commencing employment with a new employer until the garden leave period has expired. The period of garden leave for each Contracting Employee will run coterminously with the non-competition Restricted Period that applies to him or her as described below. Our founder Mr. Schwarzman is subject to non-competition covenants but not garden leave requirements.

*Non-Competition* . During the term of employment of each Contracting Employee, and during the Restricted Period (as such term is defined below) immediately thereafter, he or she will not, directly or indirectly:

- engage in any business activity in which we operate, including any competitive business,
- render any services to any competitive business, or
- acquire a financial interest in or become actively involved with any competitive business (other than as a passive investor holding minimal percentages of the stock of public companies).

“Competitive business” means any business that competes, during the term of employment through the date of termination, with our business, including any businesses that we are actively considering conducting at the time of the Contracting Employee’s termination of employment, so long as he or she knows or reasonably should have known about such plans, in any geographical or market area where we or our affiliates provide our products or services.

*Non-Solicitation* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit any of our employees to leave their employment with us, or hire any such employee who was employed by us as of the date of his or her termination or who left employment with us within one year prior to or after the date of his or her termination. Additionally, each Contracting Employee may not solicit or encourage to cease to work with us any consultant or senior advisers that he or she knows or should know is under contract with us.

In addition, during the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit the business of any client or prospective client of ours with whom he or she, employees reporting to him or her, or anyone whom he or she had direct or indirect responsibility over had personal contact or dealings on our behalf during the three-year period immediately preceding his or her termination. Contracting Employees who are employed in our asset management businesses are subject to a similar non-solicitation covenant with respect to investors and prospective investors in our investment funds.

*Non-Interference and Non-Disparagement* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she may not interfere with business relationships between us and any of our clients, customers, suppliers or partners. Each Contracting Employee is also prohibited from disparaging us in any way.

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*Restricted Period* . For purposes of the foregoing covenants, the “Restricted Period” will be:

<u>Covenant</u>	<u>Stephen A. Schwarzman</u>	<u>Other Senior Managing Directors</u>	<u>Other Contracting Employees</u>
<i>Non-competition</i>	Two years after termination of employment.	One year (six months for senior managing directors who are eligible to retire, as defined below) after termination of employment.	Between 90 days and six months after termination of employment.
<i>Non-solicitation of Blackstone employees</i>	Two years after termination of employment.	Two years after termination of employment.	Generally one year after termination of employment.
<i>Non-solicitation of Blackstone clients or investors</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-interference with business relationships</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.

*Retirement* . Blackstone personnel are eligible to retire if they have satisfied either of the following tests: (a) one has reached the age of 65 and has at least five full years of service with our firm; or (b) generally one has reached the age of 55 and has at least five full years of service with our firm and the sum of his or her age plus years of service with our firm totals at least 65.

*Intellectual Property* . Each Contracting Employee is subject to customary intellectual property covenants with respect to works created, invented, designed or developed by him or her that are relevant to or implicated by his or her employment with us.

*Specific Performance* . In the case of any breach of the confidentiality, non-competition, non-solicitation, non-interference, non-disparagement or intellectual property provisions by a Contracting Employee, the breaching individual agrees that we will be entitled to seek equitable relief in the form of specific performance, restraining orders, injunctions or other equitable remedies.

**Director Compensation in 2016**

No additional remuneration is paid to our employees for services as a director of our general partner. In 2016, each of our non-employee directors received an annual cash retainer of \$150,000 and a grant of deferred restricted common units equivalent in value to \$150,000, with a grant date fair value determined as described in footnote (a) to the first table below. An additional \$30,000 annual cash retainer was paid to the Chairman of the Audit Committee during 2016. An additional \$25,000 annual cash retainer was paid to Mr. Light in connection with his service on the executive committee of Blackstone Group International Partners LLP.

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The following table provides the director compensation for our directors for 2016:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Stock Awards (a) (b)</u>	<u>Total</u>
Bennett J. Goodman (c)	\$ —	\$ —	\$ —
Jonathan D. Gray (c)	\$ —	\$ —	\$ —
James W. Breyer (d)	\$ 69,758	\$ 149,718	\$ 219,476
Peter T. Grauer (d)	\$ 139,919	\$ 153,192	\$ 293,111
Richard Jenrette	\$ 150,000	\$ 149,718	\$ 299,718
Rochelle B. Lazarus	\$ 150,000	\$ 151,200	\$ 301,200
Jay O. Light	\$ 175,000	\$ 150,825	\$ 325,825
The Right Honorable Brian Mulroney	\$ 150,000	\$ 148,552	\$ 298,552
William G. Parrett	\$ 180,000	\$ 149,910	\$ 329,910

- (a) The references to “stock” in this table refer to our deferred restricted common units. Amounts for 2016 represent the grant date fair value of stock awards granted in the year, computed in accordance with GAAP, pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data.” These deferred restricted common units vest, and the underlying Blackstone common units will be delivered, on the first anniversary of the date of the grant, subject to the outside director’s continued service on the board of directors of our general partner.
- (b) Each of our non-employee directors was granted deferred restricted common units upon appointment as a director. In 2016, in connection with the anniversary of his or her initial grant or, in the case of Messrs. Grauer and Breyer, upon appointment, each of the following directors was granted deferred restricted common units: Mr. Mulroney — 5,867 units; Mr. Parrett — 6,328 units; Mr. Jenrette — 5,972 units; Mr. Light — 5,855 units; Ms. Lazarus — 6,300 units; Mr. Grauer — 5,827 units; and Mr. Breyer — 5,972 units. The amounts of our non-employee directors’ compensation were approved by the board of directors of our general partner upon the recommendation of our founder following his review of directors’ compensation paid by comparable companies.

The following table provides information regarding outstanding unvested equity awards made to our directors as of December 31, 2016:

<u>Name</u>	<u>Stock Awards (1)</u>	
	<u>Number of Shares or Units of Stock That Have Not Vested (2)</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (3)</u>
James W. Breyer	5,972	\$ 161,423
Peter T. Grauer	5,827	\$ 157,504
Richard Jenrette	5,972	\$ 161,423
Rochelle B. Lazarus	6,300	\$ 170,289
Jay O. Light	5,855	\$ 158,261
The Right Honorable Brian Mulroney	5,867	\$ 158,585
William G. Parrett	6,328	\$ 171,046

- (1) The references to “stock” or “shares” in this table refer to our deferred restricted common units.
- (2) The dollar amounts shown in this column were calculated by multiplying the number of unvested deferred restricted common units held by the director by the closing market price of \$27.03 per Blackstone common unit on December 30, 2016, the last trading day of 2016.
- (c) Mr. Gray and Mr. Goodman are employees and no additional remuneration is paid to them for service as directors of our general partner. Mr. Gray’s and Mr. Goodman’s employee compensation is discussed in “— Item 13. Certain Relationships and Related Transactions, and Director Independence.”

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- (d) Messrs. Breyer and Grauer were appointed to Blackstone’s Board of Directors on July 14, 2016 and January 26, 2016, respectively. Therefore, the amounts reported for Messrs. Breyer and Grauer reflect the pro-rated portion of their respective annual cash retainers earned from the date of their respective appointments.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information regarding the beneficial ownership of our common units and Blackstone Holdings Partnership Units as of February 17, 2017 by:

- each person known to us to beneficially own 5% of any class of the outstanding voting securities of The Blackstone Group L.P.;
- each member of our general partner’s board of directors;
- each of the named executive officers of our general partner; and
- all directors and executive officers of our general partner as a group.

The amounts and percentage of units beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of February 17, 2017. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise included, for purposes of this table, the principal business address for each such person is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

<u>Name of Beneficial Owner</u>	<u>Common Units, Beneficially Owned</u>		<u>Blackstone Holdings Partnership Units Beneficially Owned (a)</u>	
	<u>Number</u>	<u>% of Class</u>	<u>Number</u>	<u>% of Class</u>
<b>5% Unitholders:</b>				
FMR LLC (b)	40,628,071	7.0%	—	—
<b>Directors and Executive Officers (c)(d)</b>				
Stephen A. Schwarzman (e)(f)	—	—	231,924,793	46.1%
Hamilton E. James (f)	13,665	*	32,180,300	6.4%
J. Tomilson Hill (f)(g)	2,446,716	*	14,445,085	2.9%
Bennett J. Goodman (f)(g)	707,092	*	3,571,818	*
Jonathan D. Gray (f)	15,605	—	40,585,300	8.1%
Michael S. Chae (f)	—	—	5,831,432	1.2%
Joan Solotar	107,883	*	354,394	*
James W. Breyer	—	*	—	—
Peter T. Grauer	5,827	*	—	—
Richard Jenrette	44,206	*	—	—
Rochelle B. Lazarus	27,426	*	—	—
Jay O. Light	44,021	*	—	—
The Right Honorable Brian Mulroney	149,679	*	—	—
William G. Parrett	69,604	*	—	—
All executive officers and directors as a group (15 persons)	3,745,428	*	329,247,801	65.5%

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- \* Less than one percent
- (a) Subject to certain requirements and restrictions, the partnership units of Blackstone Holdings are exchangeable for common units of The Blackstone Group L.P. on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the five Blackstone Holdings Partnerships to effect an exchange for a common unit. See “Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement.” Beneficial ownership of Blackstone Holdings Partnership Units reflected in this table has not been also reflected as beneficial ownership of the common units of The Blackstone Group L.P. for which such units may be exchanged.
- (b) Reflects units beneficially owned by FMR, LLC and its subsidiaries based on the Schedule 13G filed by FMR, LLC on February 14, 2017. The address of FMR, LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (c) The units beneficially owned by the directors and executive officers reflected above do not include the following number of units that will be delivered to the respective individual more than 60 days after February 17, 2017: Mr. James — 6,832 deferred restricted common units; Mr. Hill — 78,918 deferred restricted Blackstone Holdings Partnership Units and 614,654 deferred restricted common units; Mr. Chae — 981,883 deferred restricted Blackstone Holdings Partnership Units — 20,767 deferred restricted common units; Mr. Goodman — 3,872,678 deferred restricted Blackstone Holdings Partnership Units; Mr. Gray — 307,518 deferred restricted common units; Ms. Solotar — 172,827 deferred restricted Blackstone Holdings Partnership Units — 72,898 deferred restricted common units ; Mr. Mulrone — 5,867 deferred restricted common units; Mr. Parrett — 6,328 deferred restricted common units; Mr. Jenrette — 5,972 deferred restricted common units; Ms. Lazarus — 6,300 deferred restricted common units; Mr. Light — 5,855 deferred restricted common units; Mr. Grauer — 4,811 deferred restricted common units; Mr. Breyer — 5,972 deferred restricted common units; and all other executive officers and directors as a group — 230,856 deferred restricted Blackstone Holdings Partnership Units and 87,852 deferred restricted common units.
- (d) The Blackstone Holdings Partnership Units shown in the table above include the following number of vested units being held back under our minimum retained ownership requirements that are required to be held throughout employment with the firm and generally for one year following termination of employment: Mr. Schwarzman — 49,636,003 Blackstone Holdings Partnership Units; Mr. James — 14,648,744 Blackstone Holdings Partnership Units; Mr. Hill — 4,654,018 Blackstone Holdings Partnership Units; Mr. Goodman — 1,105,386 Blackstone Holdings Partnership Units; Mr. Gray — 11,477,971 Blackstone Holdings Partnership Units; Mr. Chae — 3,182,160 Blackstone Holdings Partnership Units; Ms. Solotar — 111,083 Blackstone Holdings Partnership Units; and all other executive officers and directors as a group — 130,170 Blackstone Holdings Partnership Units.
- (e) On those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, holds a special voting unit in The Blackstone Group L.P. that provides it with an aggregate number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Blackstone Holdings Partnership Units held by the limited partners of Blackstone Holdings on the relevant record date and entitles it to participate in the vote on the same basis as our common unitholders. Our senior managing directors have agreed in the limited liability company agreement of Blackstone Partners L.L.C. that our founder, Mr. Schwarzman, will have the power to determine how the special voting unit held by Blackstone Partners L.L.C. will be voted. Following the withdrawal, death or disability of Mr. Schwarzman (and any successor founder), this power will revert to the members of Blackstone Partners L.L.C. holding a majority in interest in that entity. The limited liability company agreement of Blackstone Partners L.L.C. provides that at such time as Mr. Schwarzman should cease to be a founding member, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of Blackstone Partners L.L.C. If Blackstone Partners L.L.C. directs us to do so, we will issue special voting units to each of the limited partners of Blackstone Holdings, whereupon each special voting unitholder will be entitled to a number of votes that is equal to the number of vested and unvested Blackstone Holdings Partnership Units held by such special voting unitholder on the relevant record date.
- (f) The Blackstone Holdings Partnership Units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the



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named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Schwarzman — 1,666,666 units held in various trusts for which Mr. Schwarzman is the investment trustee, Mr. James — 10,657,207 units held in various trusts for which Mr. James and his brother are trustees (but Mr. James does not have or share investment control with respect to the units), Mr. Hill — 5,636,348 units held in various trusts for which Mr. Hill’s spouse is the investment trustee and 2,683,308 units held in a family limited liability company, Mr. Chae — 1,150,070 units held in a trust for which Mr. Chae is the investment trustee, Mr. Gray — 4,566,437 units held in a trust for which Mr. Gray is the investment trustee and Ms. Solotar — 81,812 units held in a trust for which Ms. Solotar is the investment trustee, (b) the following units held in grantor retained annuity trusts for which the named executive officer or director, as applicable, is the investment trustee: Mr. Schwarzman — 3,176,778 units, Mr. James — 4,000,000 units, Mr. Gray — 23,296,432 units and Ms. Solotar — 150,454 units, and (c) the following units held by a corporation for which the named executive officer is a controlling shareholder: Mr. Schwarzman — 1,438,529 units and Mr. Goodman — 1,737,550 units owned by family limited liability companies. Mr. Schwarzman also directly, or through a corporation for which he is the controlling shareholder, beneficially owns an additional 364,278 partnership units in each of Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. In addition, with respect to Mr. Schwarzman, the above table excludes partnership units of Blackstone Holdings held by his children or in trusts for the benefit of his family as to which he has no voting or investment control.

- (g) The Blackstone common units shown in the table above for each named executive officer and director include the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Hill — 1,698,442 units held in family limited liability companies and Mr. Goodman — 707,092 units held in family limited liability companies.

In addition, as of February 17, 2017, Beijing Wonderful Investments, an investment vehicle established and controlled by the People’s Republic of China, holds 54,470,009 of our non-voting common units and may from time to time make open market purchases or sales of our voting common units.

**Securities Authorized for Issuance under Equity Compensation Plans**

The table set forth below provides information concerning the awards that may be issued under the 2007 Equity Incentive Plan as of December 31, 2016:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (b)
Equity Compensation Plans Approved by Security Holders	60,523,916	—	161,427,727
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>60,523,916</b>	<b>—</b>	<b>161,427,727</b>

- (a) Reflects the outstanding number of our deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units granted under the 2007 Equity Incentive Plan as of December 31, 2016.
- (b) The aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of our common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan

should decide to increase the number of our common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). As of January 1, 2017, pursuant to this formula, 170,379,944 units, which is equal to 0.15 times the number of our common units and Blackstone Holdings Partnership Units outstanding on December 31, 2016, were available for issuance under the 2007 Equity Incentive Plan. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by the 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Transactions with Related Persons**

#### ***Tax Receivable Agreements***

We used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the pre-IPO owners. In addition, holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings partnerships to effect an exchange for a common unit. Blackstone Holdings I L.P. and Blackstone Holdings II L.P. have made an election under Section 754 of the Internal Revenue Code effective for each taxable year in which an exchange of partnership units for common units occurs, which may result in an adjustment to the tax basis of the assets of such Blackstone Holdings partnerships at the time of an exchange of partnership units. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of Blackstone's wholly owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future. One of the subsidiaries of The Blackstone Group L.P. which is a corporate taxpayer has entered into a tax receivable agreement with holders of Blackstone Holdings Partnership Units that provides for the payment by the corporate taxpayer to such holders of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of these increases in tax basis and of certain other tax benefits related to our entering into tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreement. Additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayer would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreement. A limited partner of Blackstone Holdings may also elect to exchange his or her Blackstone Holdings Partnership Units in a tax-free transaction where the limited partner is making a charitable contribution. In such a case, the exchange will not result in an increase in the tax basis of the assets of Blackstone Holdings and no payments will be made under the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of our IPO and will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayers exercise their right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase and exchanges will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$406.9 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

There was a reduction of \$82.7 million to the tax receivable agreement liability to the pre-IPO owners and others mentioned above that resulted primarily from the October 1, 2015 spin-off of the financial and strategic advisory services, restructuring services and reorganization advisory services and Park Hill Group businesses.

Subsequent to December 31, 2016, payments totaling \$59.7 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2015 taxable year. Those payments included payments of \$7.5 million to Stephen A. Schwarzman and investment vehicles controlled by relatives of Mr. Schwarzman; \$2.1 million to Hamilton E. James and a trust for which Mr. James is the investment trustee; \$0.9 million to J. Tomilson Hill and his trusts for which Mr. Hill is the investment trustee; \$0.6 million to Michael S. Chae and \$0.2 million to Bennett J. Goodman and a limited liability company controlled by a family member of Mr. Goodman.

In addition, the tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the benefits arising from the increased tax deductions and tax basis and other similar benefits. Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis and other similar benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by an exchanging or selling holder of Blackstone Holdings Partnership Units, under the tax receivable agreement. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under a tax receivable agreement and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase the tax liability of a holder of Blackstone Holdings Partnership Units without giving rise to any rights of a holder of Blackstone Holdings Partnership Units to receive payments under any tax receivable agreements.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the corporate taxpayers will not be reimbursed for any payments previously made under a tax receivable agreement. As a result, in certain circumstances, payments could be made under a tax receivable agreement in excess of the corporate taxpayers' cash tax savings.

#### ***Registration Rights Agreement***

In connection with the restructuring and IPO, we entered into a registration rights agreement with our pre-IPO owners pursuant to which we granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act common units delivered in exchange for Blackstone Holdings Partnership Units or common units (and other securities convertible into or exchangeable or exercisable for our common units) otherwise held by them. In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the registration rights agreement. Under the registration rights agreement, we agreed

to register the exchange of Blackstone Holdings Partnership Units for common units by our holders of Blackstone Holdings Partnership Units. In June 2008, we filed a registration statement on Form S-3 with the Securities and Exchange Commission to cover future issuances from time to time of up to 818,008,105 common units to holders of Blackstone Holdings Partnership Units upon exchange of up to an equal number of such Blackstone Holdings Partnership Units. In addition, our founder, Stephen A. Schwarzman, has the right to request that we register the sale of common units held by holders of Blackstone Holdings Partnership Units an unlimited number of times and may require us to make available shelf registration statements permitting sales of common units into the market from time to time over an extended period. In addition, Mr. Schwarzman has the ability to exercise certain piggyback registration rights in respect of common units held by holders of Blackstone Holdings Partnership Units in connection with registered offerings requested by other registration rights holders or initiated by us.

#### ***Swift River Investments***

Swift River Investments, Inc. (“Swift River”) is a private family investment firm that manages capital on behalf of our President, Chief Operating Officer and Director, Hamilton E. James and his brother, David R. James. While Hamilton E. James has a majority economic interest in Swift River, the day-to-day business of Swift River is managed by his brother, David R. James.

Allied Horizontal Wireline Services, LLC (“Allied”) is an oilfield services company that specializes in providing wireline services to oil and gas companies. FS Energy & Power Fund (“FSEP”), a closed-end management investment company that has elected to be regulated as a business development company under the 1940 Act to which GSO serves as a non-discretionary sub-advisor, participated in a financing transaction pursuant to which FSEP committed to provide \$1.2 million in a rights offering of Allied Downhole Technologies, the parent of Allied. Allied Energy Investors LP and Allied Energy Investors II LP (collectively, “Allied Energy Investors”), Turnbridge Capital investment vehicles in which Swift River is a limited partner, also participated in the rights offering. Prior to the financing transaction described above, Swift River held a 30.1% interest in Allied through Allied Energy Investors. In connection with the rights offering, Swift River invested an additional \$5.3 million in Allied through Allied Energy Investors. Pursuant to the terms of the transaction, the first half of the capital committed by participants in the rights offering, including FSEP and Swift River (via Allied Energy Investors), was drawn down in August 2016. Subject to the liquidity needs of Allied, the remaining half will be drawn down on or prior to May 15, 2017. Prior to the August 2016 offering, FSEP and Swift River had participated in a 2014 financing transaction of Allied, the details of which were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. Subsequent to the August 2016 offering, FSEP and Swift River own 6.5% and 27.8% of Allied, respectively. If the May 2017 offering is completed, Swift River will own 26.2% of Allied. Mr. Hamilton E. James did not participate in the negotiation or execution of the transaction in any manner for any party. The transaction was reviewed and approved by the Conflicts Committee of the board of directors of our general partner.

#### ***Tsinghua University Education Foundation***

As part of an initiative announced in 2013, Mr. Schwarzman, through the Stephen A. Schwarzman Education Foundation, personally committed \$100 million to create and endow a post-graduate scholarship program at Tsinghua University in Beijing, entitled “Schwarzman Scholars,” and fund the construction of a residential and academic building. He is leading a fundraising campaign to raise \$450 million to support the “Schwarzman Endowment Fund.” The Tsinghua University Education Foundation (“TUEF”) will hold the Schwarzman Endowment Fund and has agreed to delegate management of the fund to Blackstone. We have agreed that TUEF, and certain entities affiliated with TUEF, will not be required to pay Blackstone a management fee for managing the Schwarzman Endowment Fund and, to the extent Blackstone allocates and invests assets of the Schwarzman Endowment Fund in our funds, which may take the form of funded or unfunded general partner commitments to our investment funds, we anticipate that such investments will be subject to reduced or waived management fees and/or carried interest.

***Executive Advisor Agreement with Andrew Lapham***

From April 17, 2014 through December 31, 2016, Andrew Lapham was an Executive Advisor to Blackstone. In his role as an Executive Advisor, Mr. Lapham focused primarily on sourcing and evaluating the firm's investment opportunities in Canada. Mr. Lapham is the son-in-law of Mr. Mulroney, who has been a member of the board of directors of our general partner since 2007. Pursuant to the terms of his Executive Advisor Agreement, in respect of his services in 2016, Mr. Lapham was entitled to a \$350,000 annual retainer and a bonus, which for 2016 was \$400,000, and which will be paid in 2017. With respect to each investment sourced by him, Mr. Lapham was entitled to receive a transaction fee and, subject to a required capital contribution by Mr. Lapham, a profit sharing percentage of the net profits realized from such investment by the relevant fund. In 2016, we paid Mr. Lapham \$700,277, which represented his annual retainer, the bonus paid in 2016 in respect of his services in 2015 and his profit sharing percentage.

***Bennett J. Goodman***

On February 24, 2015, Bennett J. Goodman was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Goodman joined Blackstone in 2008 and is a Senior Managing Director and Co-Founder of GSO Capital Partners. For 2016, Mr. Goodman received a base salary of \$350,000 and an annual cash bonus payment of \$453,911. The cash payment was based upon the performance of the Credit segment, including the contribution of all current and past funds within the segment. The ultimate cash payment to Mr. Goodman was, however, determined in the discretion of Mr. Schwarzman and Mr. James.

Mr. Goodman also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Goodman in respect of carried interest in our carry funds primarily relates to Mr. Goodman's participation in the credit funds. The amount of cash payments in respect of carried interest or incentive fee allocations to Mr. Goodman for 2016 was \$3,545,756. See "Executive Compensation — Compensation Elements for Named Executive Officers" in this report for additional discussion of the elements of our compensation program.

***Jonathan D. Gray***

On February 24, 2012, Jonathan D. Gray was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Gray joined Blackstone in 1992 and is a Senior Managing Director and Global Head of Real Estate. For 2016, Mr. Gray received a base salary of \$350,000 and an annual cash bonus payment of \$21,608,501, net of his mandatory deferral pursuant to the Deferred Compensation Plan. The cash payment was based upon the performance of the Real Estate segment, including the contribution of all current and past funds within the segment dating back to before the IPO. The ultimate cash payment to Mr. Gray was, however, determined in the discretion of Mr. Schwarzman and Mr. James. On January 13, 2017, Mr. Gray was granted 276,309 deferred restricted common units with a grant date fair value of \$8,314,138, reflecting the portion of his annual cash bonus payment mandatorily deferred into deferred restricted common units pursuant to the Deferred Compensation Plan.

Mr. Gray also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Gray in respect of carried interest in our carry funds primarily relates to Mr. Gray's participation in the real estate funds (which were formed both before and after the IPO). The amount of payments in respect of carried interest (whether in cash or in-kind) or incentive fee allocations to Mr. Gray for 2016 was \$55,455,692. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. In 2016, in connection with investment advisory services provided by Blackstone to BXMT, Mr. Gray was also allocated restricted shares of listed common stock of BXMT with a value of \$904,006 based on the closing price of BXMT's common stock on the date of the award. These restricted shares will vest over three years with one-third of the

shares vesting at the end of one year after the date of the award and the remaining shares vesting in eight equal quarterly installments thereafter. See “Executive Compensation — Compensation Elements for Named Executive Officers” in this report for additional discussion of the elements of our compensation program.

### **Blackstone Holdings Partnership Agreements**

As a result of the reorganization and the IPO, The Blackstone Group L.P. became a holding partnership and, through wholly owned subsidiaries, held equity interests in the five holdings partnerships (i.e., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.). On January 1, 2009, in order to simplify our structure and ease the related administrative burden and costs, we effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. On October 1, 2015, Blackstone formed a new holding partnership, Blackstone Holdings AI L.P., which holds certain operating entities and operates in a manner similar to the other Blackstone Holdings Partnerships. The economic interests of The Blackstone Group L.P. in Blackstone’s business remains entirely unaffected. “Blackstone Holdings” refers to (a) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P. prior to the January 2009 reorganization, (b) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. from January 1, 2009 through October 1, 2015 and (c) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings AI L.P. subsequent to the October 2015 creation of Blackstone Holdings AI L.P.

Wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships have the right to determine when distributions will be made to the partners of Blackstone Holdings and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of Blackstone Holdings pro rata in accordance with the percentages of their respective partnership interests as described under “Part II. Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy.”

Each of the Blackstone Holdings Partnerships has an identical number of partnership units outstanding, and we use the terms “Blackstone Holdings Partnership Unit” or “partnership unit in/of Blackstone Holdings” to refer, collectively, to a partnership unit in each of the Blackstone Holdings Partnerships. The holders of partnership units in Blackstone Holdings, including The Blackstone Group L.P.’s wholly owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Blackstone Holdings. Net profits and net losses of Blackstone Holdings will generally be allocated to its partners (including The Blackstone Group L.P.’s wholly owned subsidiaries) pro rata in accordance with the percentages of their respective partnership interests as described under “Part II. Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy.” The partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as “tax distributions,” to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions are computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). Tax distributions are made only to the extent all distributions from such partnerships for the relevant year are insufficient to cover such tax liabilities.

Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, Blackstone Holdings Partnership Units may be exchanged for The Blackstone Group L.P. common units as described under “— Exchange Agreement” below. In

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addition, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

See “— Item 11. Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 — Terms of Blackstone Holdings Partnership Units Granted in 2016 and Prior Years” for a discussion of vesting provisions applicable to Blackstone personnel in respect of the Blackstone Holdings Partnership Units received by them in the reorganization and for a discussion of minimum retained ownership requirements and transfer restrictions applicable to the Blackstone Holdings Partnership Units. The generally applicable vesting and minimum retained ownership requirements and transfer restrictions are outlined in the sections referenced in the preceding sentence. There may be some different arrangements for some individuals in some instances. In addition, we may waive these requirements and restrictions from time to time.

In addition, substantially all of our expenses, including substantially all expenses solely incurred by or attributable to The Blackstone Group L.P. but not including obligations incurred under the tax receivable agreement by The Blackstone Group L.P.’s wholly owned subsidiaries, income tax expenses of The Blackstone Group L.P.’s wholly owned subsidiaries and payments on indebtedness incurred by The Blackstone Group L.P.’s wholly owned subsidiaries, are borne by Blackstone Holdings.

#### **Exchange Agreement**

In connection with the reorganization and IPO, we entered into an exchange agreement with the holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.’s wholly owned subsidiaries). In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the exchange agreement. Under the exchange agreement, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, each such holder of Blackstone Holdings Partnership Units (and certain transferees thereof) may up to four times each year (subject to the terms of the exchange agreement) exchange these partnership units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Under the exchange agreement, to effect an exchange a holder of partnership units in Blackstone Holdings must simultaneously exchange one partnership unit in each of the Blackstone Holdings Partnerships. As a holder exchanges its Blackstone Holdings Partnership Units, The Blackstone Group L.P.’s indirect interest in the Blackstone Holdings Partnerships will be correspondingly increased.

#### **Firm Use of Private Aircraft**

Certain entities controlled by Mr. Schwarzman wholly own aircraft that we use for business purposes in the course of our operations. Mr. Schwarzman paid for his respective ownership interests in the aircraft himself and bore his respective share of all operating, personnel and maintenance costs associated with their operation. The hourly payments we made for such use were based on current market rates. In 2016, we made payments of \$4.2 million for the use of such aircraft, which included \$2.0 million paid directly to the managers of the aircraft.

An entity jointly controlled by Mr. James and Mr. Gray wholly owns an airplane that we use for business purposes in the course of our operations. Each of Mr. James and Mr. Gray paid for his respective ownership interest in the aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we made for such use were based on current market rates. In 2016, we made payments of \$0.6 million to the manager of the aircraft for such use.

An entity controlled by Mr. Goodman, jointly with an entity controlled by another senior managing director of Blackstone, owns an airplane that we use for business purposes in the course of our operations. Mr. Goodman paid

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for his ownership interest in the aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we made for such use were based on current market rates. In 2016, we made payments of \$0.5 million to the manager of the aircraft for such use.

### **Investment in or Alongside Our Funds**

Our directors and executive officers may invest their own capital in or alongside our carry funds and other of our investment vehicles without being subject to management fees or carried interest. For our carry funds, these investments may be made through the applicable fund general partner and fund a portion of the general partner capital commitments to our funds. In addition, our directors and executive officers may invest their own capital in our funds of hedge funds and credit-focused funds that are structured as hedge funds, in some instances, not subject to management fees or carried interest. These investment opportunities are available to all of our senior managing directors and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. During the year ended December 31, 2016, our directors and executive officers (and, in some cases, certain investment trusts or other family vehicles or charitable organizations controlled by them or their immediate family members) had the following net contributions or net distributions relating to their personal investments (and the investments of any such trusts) in Blackstone-managed investment funds: Mr. Schwarzman, Mr. James, Mr. Gray, Mr. Hill, Mr. Mulroney, Ms. Solotar, Mr. Finley, Mr. Light and Mr. Parrett received net distributions of \$45.0 million, \$18.9 million, \$19.4 million, \$11.8 million, \$0.5 million, \$0.5 million, \$0.4 million, \$0.3 million and \$0.3 million, respectively, and Mr. Goodman and Mr. Chae made net contributions of \$5.8 million and \$1.6 million, respectively.

### **Statement of Policy Regarding Transactions with Related Persons**

The board of directors of our general partner has adopted a written statement of policy regarding transactions with related persons, which we refer to as our “related person policy.” Our related person policy requires that a “related person” (as defined as in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to the Chief Legal Officer of our general partner any “related person transaction” (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. The Chief Legal Officer will then promptly communicate that information to the board of directors of our general partner. No related person transaction will be consummated without the approval or ratification of the board of directors of our general partner or any committee of the board of directors consisting exclusively of disinterested directors. It is our policy that directors interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

### **Indemnification of Directors and Officers**

Under our partnership agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our general partner; any departing general partner; any person who is or was an affiliate of a general partner or any departing general partner; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, the general partner or any departing general partner or any affiliate of ours or our subsidiaries, the general partner or any departing general partner; any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our general partner. We have agreed to provide this indemnification to the extent such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the partnership, and with respect to any alleged conduct resulting in a criminal proceeding against such person, to deny indemnification if such person had reasonable cause to believe that his or her conduct was unlawful. We have



also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

We will also indemnify any of our employees who personally becomes subject to a “clawback” obligation to one of our investment funds in respect of carried interest that we have received. See “Part I. Item 1. Business — Incentive Arrangements / Fee Structure.”

### **Non-Competition and Non-Solicitation Agreements**

We have entered into a non-competition and non-solicitation agreement with each of our professionals and other senior employees, including each of our executive officers. See “— Item 11. Executive Compensation — Non-Competition and Non-Solicitation Agreements” for a description of the material terms of such agreements.

### **Director Independence**

Because we are a publicly traded limited partnership, the NYSE rules do not require our general partner’s board to be made up of a majority of independent directors. All of the non-management directors of our general partner’s board of directors satisfy the independence requirements of the NYSE. These directors are Messrs. Breyer, Grauer, Jenrette, Light, Mulroney and Parrett and Ms. Lazarus. Based on all relevant facts and circumstances, our general partner’s board of directors affirmatively determined that the independent directors have no material relationship with us or our general partner. In making a determination with regard to Mr. Grauer’s independence, our general partner’s board of directors considered Mr. Grauer’s role as a member of the Board of Trustees of the Inner-City Scholarship Fund and Mr. Schwarzman’s past and currently pledged contributions to the Inner-City Scholarship Fund. The board of directors of our general partner follows the following standards in determining director independence:

Under any circumstances, a director is not independent if:

- the director is, or has been within the preceding three years, employed by our general partner or us,
- an immediate family member of the director was employed as an executive officer of our general partner or us within the preceding three years,
- the director, or an immediate family member of that director, received within the preceding three years more than \$120,000 in any twelve-month period in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service),
- the director is a current partner or employee of a firm that is our internal or external auditor; the director has an immediate family member who is a current partner of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on our audit; or the director or an immediate family member of that director was within the last three years a partner or employee of such a firm and personally worked on our or a predecessor’s audit within that time,
- the director or an immediate family member is, or has been within the preceding three years, employed as an executive officer of another company where any of our general partner’s present executive officers at the same time serves or served on such other company’s compensation committee, or
- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the preceding three fiscal years, exceeds the greater of \$1,000,000 or two percent (2%) of the consolidated gross revenues of the other company.

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The following commercial or charitable relationships will not be considered to be material relationships that would impair a director’s independence:

- if the director or an immediate family member of that director serves as an executive officer, director or trustee of a charitable organization, and our annual charitable contributions to that organization (excluding contributions by us under any established matching gift program) are less than the greater of \$1,000,000 or two percent (2%) of that organization’s consolidated gross revenues in its most recent fiscal year, and
- if the director or an immediate family member of that director (or a company for which the director serves as a director or executive officer) invests in or alongside of one or more investment funds or investment companies managed by us or any of our subsidiaries, whether or not fees or other incentive arrangements for us or our subsidiaries are borne by the investing person.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, the “Deloitte Entities”):

	Year Ended December 31, 2016			Total
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d)	Blackstone Funds, Transaction Related (e)	
	(Dollars in Thousands)			
Audit Fees	\$ 9,725(a)	\$ 31,629	\$ —	\$ 41,354
Audit-Related Fees	195(b)	151	11,976	12,322
Tax Fees	1,105(c)	57,103	13,188	71,396
Total	<u>\$ 11,025</u>	<u>\$ 88,883</u>	<u>\$ 25,164</u>	<u>\$ 125,072</u>

	Year Ended December 31, 2015			Total
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d)	Blackstone Funds, Transaction Related (e)	
	(Dollars in Thousands)			
Audit Fees	\$ 10,305(a)	\$ 33,745	\$ —	\$ 44,050
Audit-Related Fees	207(b)	244	10,862	11,313
Tax Fees	538(c)	57,914	7,235	65,687
Total	<u>\$ 11,050</u>	<u>\$ 91,903</u>	<u>\$ 18,097</u>	<u>\$ 121,050</u>

- (a) Audit Fees consisted of fees for (1) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation, (2) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and (3) consents and other services related to SEC and other regulatory filings.
- (b) Audit-Related Fees include risk advisory services.
- (c) Tax Fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.
- (d) The Deloitte Entities also provide audit, audit-related and tax services (primarily tax compliance and related services) to certain Blackstone funds and other corporate entities. Also included in these amounts are audit and tax fees related to the spin-off of Blackstone’s financial advisory practice in 2015.
- (e) Audit-Related and Tax Fees included merger and acquisition due diligence services provided in connection with potential acquisitions of portfolio companies for investment purposes primarily to certain private equity and real estate funds managed by Blackstone in its capacity as the general partner. In addition, the Deloitte

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Entities provide audit, audit-related, tax and other services to the portfolio companies, which are approved directly by the portfolio company's management and are not included in the amounts presented here.

Our audit committee charter, which is available on our website at <http://ir.blackstone.com> under "Corporate Governance," requires the audit committee to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm in accordance with the audit and non-audit related services pre-approval policy. All services reported in the Audit, Audit-Related, Tax and All Other Fees categories above were approved by the audit committee.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this annual report.

1. *Financial Statements:*

See Item 8 above.

2. *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-141504) filed with the SEC on March 22, 2007).
3.2	Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K (File No. 001-33551) filed with the SEC on June 27, 2007).
3.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 3.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
3.2.2	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 4, 2011 (incorporated herein by reference to Exhibit 3.2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
4.1	Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.2	First Supplemental Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.3	Form of 6.625% Senior Note due 2019 (included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.6	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.7	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.6 hereto).
4.8	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.9	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.8 hereto).
4.10	Fifth Supplemental Indenture dated as of April 7, 2014 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 7, 2014).
4.11	Form of 5.000% Senior Note due 2044 (included in Exhibit 4.10 hereto).
4.12	Sixth Supplemental Indenture dated as of April 27, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 27, 2015).
4.13	Form of 4.450% Senior Note due 2045 (included in Exhibit 4.12 hereto).
4.14	Seventh Supplemental Indenture dated as of May 19, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., The Bank of New York Mellon, as trustee, and The Bank of New York Mellon, London Branch, as paying agent (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on May 19, 2015).
4.15	Form of 2.000% Senior Note due 2025 (included in Exhibit 4.14 hereto).
4.16	Guarantor Joinder Agreement dated as of October 1, 2015 among Blackstone Holdings Finance Co. L.L.C., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., Blackstone Holdings AI L.P. and Citibank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
4.17	Eighth Supplemental Indenture dated as of October 1, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., Blackstone Holdings AI L.P. and The Bank of New York Mellon, as Trustee (incorporated herein by reference to Exhibit 4.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.18	Ninth Supplemental Indenture dated as of October 5, 2016 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings AI L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., The Bank of New York Mellon, as trustee, and The Bank of New York Mellon, London Branch, as paying agent (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on October 5, 2016).
4.19	Form of 1.000% Senior Note due 2026 (included in Exhibit 4.18 hereto).
10.1	Amended and Restated Limited Partnership Agreement of Blackstone Holdings I L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings I L.P. party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.1.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings I L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.1.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.2	Amended and Restated Limited Partnership Agreement of Blackstone Holdings II L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings II L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.3	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III L.P., dated as of January 1, 2009, by and among Blackstone Holdings III GP L.L.C. and the limited partners of Blackstone Holdings III L.P. party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.3.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings III L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.4	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV L.P., dated as of January 1, 2009, by and among Blackstone Holdings IV GP L.P. and the limited partners of Blackstone Holdings IV L.P. party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.4.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings IV L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.5	Amended and Restated Limited Partnership Agreement of Blackstone Holdings AI L.P., dated as of October 1, 2015 (incorporated herein by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.6	Tax Receivable Agreement, dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc., Blackstone Holdings I L.P., Blackstone Holdings II L.P. and the limited partners of Blackstone Holdings I L.P. and Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.7	Third Amended and Restated Exchange Agreement, dated as of October 1, 2015, among The Blackstone Group L.P., Blackstone Holdings AI L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto (incorporated herein by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.8	Registration Rights Agreement, dated as of June 18, 2007 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.9.1+	The Blackstone Group L.P. Amended and Restated 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on July 9, 2014).
10.10+	The Blackstone Group L.P. Sixth Amended and Restated Bonus Deferral Plan effective as of December 1, 2014 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.11+	Founding Member Agreement of Stephen A. Schwarzman, dated as of June 18, 2007, by and among Blackstone Holdings I L.P. and Stephen A. Schwarzman (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.12+	Form of Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 14, 2007). (Applicable to all executive officers other than Messrs. Schwarzman and Peterson.)
10.13+	Form of Deferred Restricted Common Unit Award Agreement (Directors) (incorporated herein by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.14+	Form of Deferred Restricted Blackstone Holdings Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.15	Amended and Restated Credit Agreement dated as of March 23, 2010, as amended and restated as of May 29, 2014, and as further amended and restated as of August 31, 2016, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings AI L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as guarantors, Citibank, N.A., as administrative agent and the lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 7, 2016).
10.16	Letter Agreement between The Blackstone Group L.P. and the Beijing Wonderful Investments Ltd, dated May 22, 2007 (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 4, 2007).
10.17	Letter Agreement, dated October 16, 2008, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd, amending the Letter Agreement, dated May 22, 2007, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd (incorporated herein by reference to Exhibit 10.16.1 to the Registrants' Current Report on Form 8-K filed with the SEC on October 16, 2008).
10.18+	Second Amended and Restated Limited Liability Company Agreement of BMA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BMA V L.L.C. (incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.20+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.21.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.20.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.22+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Management Associates IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Management Associates IV L.L.C. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.23+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates L.L.C. (incorporated herein by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.24+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates II L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates II L.L.C. (incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.25+	Second Amended and Restated Limited Liability Company Agreement of BREA IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA IV L.L.C. (incorporated herein by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26+	Second Amended and Restated Limited Liability Company Agreement of BREA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA V L.L.C. (incorporated herein by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.27+	Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.27.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.26.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.28	Second Amended and Restated Limited Liability Company Agreement of Blackstone Communications Management Associates I L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Communications Management Associates I L.L.C. (incorporated herein by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.29+	Amended and Restated Limited Liability Company Agreement of BCLA L.L.C., dated as of April 15, 2008, by and among Blackstone Holdings III L.P. and certain members of BCLA L.L.C. (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.30+	Third Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates Europe III L.P., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.31+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Real Estate Special Situations Associates L.L.C., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.32+	BMA VI L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2008 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.33+	Fourth Amended and Restated Limited Liability Company Agreement of GSO Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001- 33551) filed with the SEC on March 2, 2009).
10.34+	Amended and Restated Limited Liability Company Agreement of GSO Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.35+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001- 33551) filed with the SEC on March 2, 2009).
10.36+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.37+	Amended and Restated Limited Liability Company Agreement of GSO Liquidity Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.38+	Blackstone / GSO Capital Solutions Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of May 22, 2009 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.39+	Blackstone / GSO Capital Solutions Overseas Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of July 10, 2009 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.40+	Blackstone Real Estate Special Situations Associates II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.41+	Blackstone Real Estate Special Situations Management Associates Europe L.P. Amended and Restated Agreement of Limited Partnership, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.42+	BRECA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of May 1, 2009 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Quarterly Report on 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.43	GSO Targeted Opportunity Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.44	GSO Targeted Opportunity Overseas Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.45	BCVA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 8, 2010 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.46	Amended and Restated Agreement of Exempted Limited Partnership of MB Asia REA L.P., dated November 23, 2010 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33551) filed with the SEC on February 25, 2011).
10.47	Amended and Restated Limited Liability Company Agreement of GSO SJ Partners Associates LLC, dated December 7, 2010, by and among GSO Holdings I L.L.C. and certain members of GSO SJ Partners Associates LLC thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.48+	Amended and Restated Exempted Limited Partnership Agreement of GSO Capital Opportunities Associates II LP, dated as of December 31, 2015 (incorporated herein by reference to Exhibit 10.53 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.49	Blackstone EMA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.50	Blackstone Real Estate Associates VII L.P. Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.50.1	Blackstone Real Estate Associates VII L.P. Second Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.53.1 to the Registrant's Annual Report on Form 10 K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.51	GSO Energy Partners-A Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of February 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.52	BTOA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of February 15, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.53+	Form of Deferred Holdings Unit Agreement for Senior Managing Directors (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.54+	Amended and Restated Limited Liability Company Agreement of Blackstone Commercial Real Estate Debt Associates L.L.C., dated as of November 12, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.55+	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.56+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.57+	GSO Foreland Resources Co-Invest Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 10, 2012 (incorporated herein by reference to Exhibit 10.60 to the Registrant's Annual Report on Form 10 K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.58+	GSO Palmetto Opportunistic Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2012 (incorporated herein by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10 K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.59+	Second Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Asia L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.63 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.60+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Europe IV L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.64 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.61+	Aircraft Dry Lease Agreement between XB Partners LLC and Blackstone Administrative Services Partnership L.P. dated as of February 27, 2015 (incorporated herein by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.62+	Form of GSO Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.66 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.63+	Form of GSO Senior Managing Director Non-Compensation and Non-Solicitation Agreement by and among Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.67 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.64+	Form of Performance Earn Out Letter Agreement by and among Blackstone Holdings I L.P., GSO Holdings I L.L.C. and each of the GSO individuals party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.65+	Performance Earn Out Side Letter by and between Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. and Bennett J. Goodman dated February 24, 2015 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.66+	Form of Deferred Holdings Unit Agreement between The Blackstone Group L.P. and each GSO participant party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.67	Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Administrative Services Partnership L.P., dated as of January 15, 2015 (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.68+	Form of Special Equity Award — Deferred Holdings Unit Agreement under The Blackstone Group L.P. 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (File No. 001-33551) filed with the SEC on August 6, 2015).
10.69+	Amended and Restated Agreement of Limited Partnership of BREP Edens Associates L.P., dated as of December 18, 2013 (incorporated herein by reference to Exhibit 10.76 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.70+	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone AG Associates L.P., dated as of February 16, 2016 and deemed effective as of May 30, 2014 (incorporated herein by reference to Exhibit 10.77 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.71+	Amended and Restated Agreement of Limited Partnership of BREP OMP Associates L.P., dated as of June 27, 2014 (incorporated herein by reference to Exhibit 10.78 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.72+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone OBS Associates L.P., dated as of February 16, 2016 and deemed effective July 25, 2014 (incorporated herein by reference to Exhibit 10.79 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.73+	Amended and Restated Limited Liability Company Agreement of Blackstone EMA II L.L.C., dated as of October 21, 2014 (incorporated herein by reference to Exhibit 10.80 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.74+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Liberty Place Associates L.P., dated as of February 9, 2015 (incorporated herein by reference to Exhibit 10.81 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.75+	Second Amended and Restated Agreement of Exempted Limited Partnership of BPP Core Asia Associates L.P., dated February 16, 2016 and deemed effective March 18, 2015 (incorporated herein by reference to Exhibit 10.82 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.76+	Second Amended and Restated Agreement of Exempted Limited Partnership of BPP Core Asia Associates-NQ L.P., dated as of February 16, 2016 and deemed effective March 18, 2015 (incorporated herein by reference to Exhibit 10.83 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.77+	Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Associates VIII L.P., dated as of March 27, 2015 (incorporated herein by reference to Exhibit 10.84 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.78+	Amended and Restated Limited Liability Company Agreement of BMA VII L.L.C., dated as of May 13, 2015 (incorporated herein by reference to Exhibit 10.85 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.79+	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone Property Associates International L.P., dated as of February 16, 2016 and deemed effective as of July 15, 2015 (incorporated herein by reference to Exhibit 10.86 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.80+	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone Property Associates International-NQ L.P., dated as of February 16, 2016 and deemed effective July 28, 2015 (incorporated herein by reference to Exhibit 10.87 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-33551) filed with the SEC on February 26, 2016).
10.81+	BTOA II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of December 19, 2014 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 001-33551) filed with the SEC on May 4, 2015).
10.82+*	Special Equity Award - Deferred Holdings Unit Agreement under The Blackstone Group L.P. 2007 Equity Incentive Plan (Chief Financial Officer).
10.83+*	Form of Deferred Holdings Unit Agreement under The Blankspace Group L.P. 2007 Equity Incentive Plan (2013 and 2014 awards).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

+ Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

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

**ITEM 16. FORM 10-K SUMMARY**

None.





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<u>Signature</u>	<u>Title</u>
<hr/> /s/ Brian Mulroney Brian Mulroney	Director
<hr/> /s/ William G. Parrett William G. Parrett	Director
<hr/> /s/ Michael S. Chae Michael S. Chae	Chief Financial Officer (Principal Financial Officer)
<hr/> /s/ Kathleen Skero Kathleen Skero	Principal Accounting Officer (Principal Accounting Officer)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551



**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 

(do not check if a smaller reporting company)

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2015 was approximately \$24.8 billion, which includes non-voting common units with a value of approximately \$2.4 billion.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 19, 2016 was 565,216,681. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 19, 2016 was 59,083,468.

DOCUMENTS INCORPORATED BY REFERENCE

None

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## **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “indicator,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (“SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

## **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the “Contact Us/Email Alerts” section of our website at <http://ir.blackstone.com>. The contents of our website, any alerts and social media channels are not, however, a part of this report.

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In this report, references to “Blackstone,” the “Partnership,” “we,” “us” or “our” refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

“Blackstone Funds,” “our funds” and “our investment funds” refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) and collateralized debt obligation (“CDO”) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. “Our carry funds” refers to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone’s Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (“BCP”) funds, our opportunistic investment platform that invests globally across asset classes, industries and geographies, which we collectively refer to as Blackstone Tactical Opportunities (“Tactical Opportunities”), and Strategic Partners Fund Solutions (“Strategic Partners”), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (“BREDS”) funds. We refer to our core+ real estate funds, which target substantially stabilized assets generating relatively stable cash flow, as Blackstone Property Partners (“BPP”) funds. We refer to our listed real estate investment trusts as “REITs.” “Our hedge funds” refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone.

“Assets Under Management” refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), with the majority of our funds requiring from 60 days to 95 days’ notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days’ notice.

“Fee-Earning Assets Under Management” refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

**PART I.**

**ITEM 1. BUSINESS**

***Overview***

Blackstone is a leading global alternative asset manager, with Total Assets Under Management of \$336.4 billion as of December 31, 2015. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds and other multi-asset class strategies. We historically also provided a wide range of financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. In October 2015, however, we completed the previously-announced spin-off of these businesses, other than our capital markets services business, which was retained.

All of Blackstone's businesses use a solutions oriented approach to drive better performance. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are public pension and corporate funds. As a result, to the extent our funds perform well, it supports a better retirement for millions of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have transformative impacts on local economies.

As of December 31, 2015, we had 104 senior managing directors and employed approximately 790 other investment professionals at our headquarters in New York and in 20 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

***2015 Highlights***

***Strong Realization Activity***

- Sustained strong exit activity despite a volatile market backdrop and slowing public sales, with total realizations of \$43 billion, down slightly from a firm record of \$45 billion in 2014.
- Active participation in equity and debt capital markets, including over 30 public equity transactions raising an aggregate of over \$15 billion in proceeds, and a number of portfolio company refinancings. Equity capital markets activity included the successful initial public offerings of Summit Materials, Scout24, Performance Food Group, Intertrust and SH Kelkar.

***Record Global Investment Pace***

- Our funds, including co-investments, invested a record \$32 billion of capital.
- Global scale and size allow Blackstone to identify relative value and deploy capital in the most attractive opportunities. Our real estate business leveraged its singular platform to consummate hallmark deals in 2015, including the acquisition of the majority of GE Capital's real estate business, the acquisition of Stuyvesant Town, Manhattan's largest apartment complex, and four take-privates of public real estate companies.

***Strong Growth in Assets Under Management Despite Record Realization Pace***

- Each of our investing businesses saw positive growth in Assets Under Management in 2015, despite significant levels of realizations, primarily due to continued strong inflows through product and channel diversification.
- Gross organic capital inflows across our businesses reached \$94 billion for 2015, of which \$13 billion was through the retail channel (which includes funds raised through intermediary firms that focus their offerings primarily on private clients and flows into products whose target audience is private clients, such as mutual funds, separately managed accounts and business development companies). We believe \$94 billion of gross organic capital inflows is a record fiscal year for any alternative asset management firm.
- Our seventh flagship private equity fund closed with third party commitments of \$17.5 billion.
- Our eighth global real estate fund closed with third party commitments of \$16 billion.
- Our new core+ real estate platform raised nearly \$7 billion in its second year to reach \$11 billion in Assets Under Management.
- Hedge Fund Solutions had external gross inflows of \$11 billion, including additional inflows into Blackstone Alternative Asset Management's ("BAAM") registered product platform, which is now \$7 billion in size.
- Senfina, BAAM's multi-strategy trading platform, grew rapidly to \$2 billion in Assets Under Management across eight portfolio managers.
- Strategic Partners began raising its latest secondary fund of funds.
- Tactical Opportunities continued fundraising for its platform of separately managed accounts, raising over \$7 billion in 2015.
- Credit continued to diversify the platform and launch new products, driving \$23 billion in gross inflows during 2015.

***Completion of the Spin-Off of Our Advisory Business***

- In October, we completed the previously-announced spin-off of the operations that have historically constituted our Financial Advisory segment, other than our capital markets services business, a transaction that creates new growth opportunities for our investing business. The financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses were spun-off from Blackstone and combined with PJT Capital LP, an independent financial advisory firm founded by Paul J. Taubman, to form an independent, publicly traded company called PJT Partners Inc.

***Industry-Leading Credit Rating and Strong Balance Sheet***

- Strong balance sheet with no net debt, \$4.2 billion in total cash, corporate treasury and liquid investments, and a \$1.1 billion undrawn revolver.
- S&P and Fitch have both affirmed Blackstone's A+ / A+ credit ratings, making Blackstone the highest rated alternative asset manager and one of the highest rated global financial services firms.
- Raised \$678 million of debt capital in 2015, including the successful execution of our first euro bond sale in a highly oversubscribed offering of €300 million of 2.0% notes due 2025 and of an offering of \$350 million of 4.45% notes due 2045.

***Positively Impacting Communities***

- The Blackstone Charitable Foundation believes that entrepreneurship plays a crucial role in economic growth. The Foundation works with local partners in targeted regions worldwide to create or grow



non-profit programs that support the networks and resources that entrepreneurs need to succeed. The Foundation has committed \$40 million to this “Entrepreneurship Initiative” since the program’s inception in 2010. In 2015, the Foundation expanded one of its signature programs “Blackstone LaunchPad,” to three universities in Ireland and five universities in New York state.

- In support of The White House’s “Joining Forces” initiative, Blackstone launched its Veterans Hiring Initiative, committing to hire 50,000 veterans across our portfolio of companies over a five-year period. More than 33,000 veterans have been hired since the Veterans Hiring Initiative was announced in April 2013. In 2015, we partnered with KKR, Carlyle and TPG to expand our annual summit to include representatives from across the industry, with U.S. First Lady Michelle Obama delivering keynote remarks and 150 hiring executives from the firms’ collective portfolio in attendance.

## **Business Segments**

Our four business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions and (d) Credit.

Information about our business segments should be read together with “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements and related notes included elsewhere in this Form 10-K. As a result of the spin-off of our Financial Advisory business in October 2015, which did not include our capital markets services business, the results of our capital markets services business were reclassified from our prior Financial Advisory segment to the Private Equity segment. All prior periods in this report have been recast to reflect this reclassification.

### ***Private Equity***

Our Private Equity segment, established in 1987, is a global business with approximately 230 investment professionals managing \$94.3 billion of Total Assets Under Management as of December 31, 2015. We are focused on identifying, managing and creating lasting value for our investors. Our Private Equity segment includes our (a) corporate private equity funds, (b) Tactical Opportunities, our opportunistic investment platform that invests globally across asset classes, industries and geographies, (c) Strategic Partners, our secondary private fund of funds business, (d) Blackstone Total Alternatives Solution (“BTAS”), a new multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone’s key illiquid investment strategies through a single commitment and (e) our capital markets services business. We have raised seven general private equity funds as well as three specialized corporate private equity funds focusing on energy and communications-related investments. We are currently investing from our sixth general private equity fund, Blackstone Capital Partners VI (“BCP VI”) and our second energy fund, Blackstone Energy Partners II (“BEP II”).

Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Our private equity business’s investment strategies and core themes continually evolve, in anticipation of, or in response to changes in the global economy, local markets, regulation, capital flows and geopolitical trends. We seek to construct a differentiated portfolio of investments with a well-defined, interventionist, post-acquisition value creation strategy. Similarly, we seek investments that can generate strong unlevered returns regardless of entry or exit cycle timing. Finally, when we can identify sectors or geographies in which the demand for capital greatly exceeds the readily available supply, our private equity business seeks to make investments at or near book value where it can create goodwill or franchise value through post-acquisition actions.

Tactical Opportunities, our opportunistic investment platform, invests globally across asset classes, industries and geographies. Tactical Opportunities’ mandate allows for flexible investing where it seeks to capitalize on

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time-sensitive, complex or dislocated market situations in areas where it sees mispriced risks. The Tactical Opportunities team leverages intellectual capital from across all of our businesses to inform our investment diligence and execution. A flexible investment mandate allows Tactical Opportunities to structure a broad range of investments, including private and public securities and instruments, where the underlying exposure may be to equity, debt and/or real assets, and to construct a diversified portfolio of investments that provides differentiated exposures relative to traditional alternative asset managers.

Strategic Partners, our secondary private fund of funds business was established in 2000. Strategic Partners is focused on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.

For more information concerning the revenues and fees we derive from our Private Equity segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

***Real Estate***

Since our start in 1991, we have become a world leader in real estate investing with approximately 265 investment professionals and \$93.9 billion of Total Assets Under Management as of December 31, 2015. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment vehicles, a NYSE publicly traded real estate investment trust (“BXMT”) and several core+ real estate funds. We refer to our opportunistic real estate funds as our Blackstone Real Estate Partners (“BREP”) funds, our real estate debt investment vehicles as our Blackstone Real Estate Debt Strategies (“BREDS”) funds and our core+ real estate funds as our Blackstone Property Partners (“BPP”) funds.

Our BREP funds are geographically diversified and target a broad range of “opportunistic” real estate and real estate related investments that are generally undermanaged assets with higher potential for equity appreciation. BREP has made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies.

Our BREDS’ vehicles target real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Our BPP funds are geographically diversified and target substantially stabilized assets generating relatively stable cash flow with a focus on office, multifamily, industrial and retail assets in gateway markets.

Our Real Estate segment’s investing approach is guided by several core investment principles, including global scope, a significant number of exclusive opportunities, financing expertise, operations oversight and a strong focus on value creation. For more information concerning the revenues and fees we derive from our Real Estate segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

***Hedge Fund Solutions***

Our Hedge Fund Solutions group is comprised primarily of Blackstone Alternative Asset Management (“BAAM”). BAAM is the world’s largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solution segment also includes investment platforms that seed new hedge fund talent, purchase ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade long and short public equities. Working with our clients over the past 26 years, our Hedge Fund Solutions group has developed into a leading manager of institutional hedge fund of funds with approximately 165 investment professionals managing \$69.1 billion of Total Assets Under Management as of December 31, 2015. Hedge Fund Solutions’ overall investment philosophy is to protect and grow investors’ assets through both commingled and

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custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

***Credit***

Our credit business, consisting principally of GSO Capital Partners LP (“GSO”), with \$79.1 billion of Total Assets Under Management as of December 31, 2015 and approximately 160 investment professionals, is a leading participant in the leveraged finance markets. The funds we manage or sub-advise include senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. GSO also manages separately managed accounts and registered investment companies including business development companies. These vehicles have investment portfolios consisting of loans and securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with certain of the investments made by the credit-focused funds, separately managed accounts or registered investment companies. GSO manages 51 separate CLOs as of December 31, 2015, focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

**Financial and Other Information by Segment**

Financial and other information by segment for the years ended December 31, 2015, 2014 and 2013 is set forth in Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data” of this filing.

**Pátria Investments**

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”). Pátria is a leading Brazilian alternative asset manager that was founded in 1988. As of December 31, 2015, Pátria’s alternative asset management businesses managed \$8.6 billion in assets and include the management of private equity funds (\$3.9 billion), real estate funds (\$1.1 billion), infrastructure funds (\$3.3 billion) and new initiatives (\$310 million). Pátria has approximately 230 employees and is led by a group of three managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria’s board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

**Investment Process and Risk Management**

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest, as well as limitations required by law. In addition, the chief investment officers of our businesses play a central role in the evaluation of investment opportunities, including by serving as members of their respective investment committees.

Our business’ investment committees review and evaluate investment opportunities in a framework that includes a qualitative and quantitative assessment of the key risks of each investment. For example, considerations that the investment committees of our private equity funds take into account when evaluating an investment include the quality of a business in which the fund proposes to invest and the quality of the management team of such business, expected levered and unlevered returns of the investment in a variety of investment scenarios, the ability of the company in which the investment is made to service debt in a range of economic and interest rate

environments, environmental, social and governance, or ESG, issues and macroeconomic trends in the relevant geographic region. In addition, considerations that the investment committees of our real estate funds take into account when evaluating an investment include current and anticipated market fundamentals (including, for example, supply and demand fundamentals) and macroeconomic trends in the relevant geographic region, the quality of the asset in which the fund proposes to invest, the appropriateness of existing or planned leverage levels of the business or asset and our ability to successfully implement operational plans and improvements and exit the investment at an expected rate of return.

### **Private Equity Funds**

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) submits a proposed transaction for review by the review committee of our private equity funds. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. Following assimilation of the review committee's input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James and selected senior managing directors of our Private Equity segment as appropriate based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

Our Tactical Opportunities business has a substantially similar process to the Private Equity process described above, with the exception of the composition of the review and investment committees. The Tactical Opportunities review committee is comprised of the senior managing directors and managing directors of the Tactical Opportunities business and a senior managing director of our Private Equity business, and the investment committee is comprised of Mr. Schwarzman, Mr. James, the business heads of Blackstone's Private Equity, Real Estate and Credit businesses, and certain other senior managing directors.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies' operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds' portfolio companies.

Our Strategic Partners secondary private equity investment professionals seek capital appreciation through the purchase of secondary interests in mature, high-quality private equity funds from investors seeking liquidity. After rigorous, highly analytical investment and operational due diligence, the Strategic Partners' investment professionals will present a proposed transaction to the group's Investment Committee. The Strategic Partners Investment Committee is made up of senior members of the Strategic Partners team, including all of the group's Senior Managing Directors. The Investment Committee meets on an ad hoc basis as needed to review transactions. After reviewing the investment team's Investment Committee Memorandum and discussing the contemplated transaction with the deal team, the Investment Committee decides whether to approve or deny the investment. The investment professionals on the Strategic Partners team are responsible for monitoring each investment once it is made. In addition to members of the investment team, and given the large number of underlying investments, the Strategic Partners Finance team will also track investment valuations pursuant to the group's valuation policies and procedures.

### **Real Estate Funds**

Our Real Estate investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing, monitoring and exiting investments, as well as pursuing operational

improvements and value creation. Our real estate operation has an investment committee similar to that described under “— Private Equity Funds.” After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly meeting of the investment committee. The real estate investment committee, which includes Mr. Schwarzman, Mr. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP and BPP fund investment. The committee also approves significant illiquid investments by the BREDS funds. Additionally, BXMT has an investment risk management committee comprised solely of independent directors, which is responsible for approving certain significant BXMT investments. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies’ operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds’ portfolio companies and other investments.

### **Hedge Fund Solutions**

Before deciding to invest in a new hedge fund or with a new hedge fund manager, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site “front office” review of the fund’s/manager’s performance, investment terms, investment strategy and investment personnel, a “back office” review of the fund’s/manager’s operations, processes, risk management and internal controls, industry reference checks and a legal review of the investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the relevant Hedge Fund Solutions Investment Committee. The Investment Committees are comprised of relevant senior managing directors and senior investment personnel. The Hedge Fund Solutions’ Executive Committee reviews and approves all investment allocations where there is limited capacity or there are other unusual circumstances for compliance with the relevant allocation procedures. Existing investments are reviewed and monitored on a regular and continuous basis, and J. Tomilson Hill, CEO of Hedge Fund Solutions and Vice Chairman of Blackstone, and other senior members of our Hedge Fund Solutions team, generally meet bi-weekly with Mr. Schwarzman and Mr. James for a high-level review of the group’s business and affairs.

### **Credit**

Each of our credit-focused funds has an investment committee similar to that described under “— Private Equity Funds.” The investment committees for the credit-focused funds, which typically include Bennett J. Goodman and J. Albert Smith III and senior members of the respective investment teams associated with each credit-focused fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Mr. Goodman and Mr. Smith III, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for the customized credit long-only clients and other clients whose portfolios are actively traded are made by separate investment committees, each of which is composed of certain of the group’s respective senior managing directors, managing directors and other investment professionals. With limited exceptions where the portfolio managers wish to capitalize on time sensitive market opportunities, the investment committee approves all assets that are held by the applicable client. The investment team is staffed by professionals within research, portfolio management, trading and capital formation to ensure active management of the portfolios. Investment decisions (including the approval of the asset for the initial purchase) follow a consensus-based approach. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation as well as the risks associated with the overall portfolio composition.

Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### **Structure and Operation of Our Investment Vehicles**

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high-net worth individuals. Such commitments are generally drawn down from investors on an as-needed basis to fund investments over a specified term. All of our private equity and private real estate funds are commitment structured funds, except certain core+ and real estate debt funds, which are structured like hedge funds where all (or a portion) of the committed capital is funded on or promptly after the investor's subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our Real Estate business also includes a NYSE-listed real estate investment trust, or "REIT," and a registered open-ended investment company complex, each of which is externally managed by a BREDS-owned adviser. Our credit-focused funds are generally commitment structured funds or open-ended where the investor's capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Ten credit-focused vehicles that we manage or sub-advise in whole or in part are registered investment companies (including business development companies). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds as well as our hedge funds are structured as funds where the investor's capital is fully funded into the fund upon the subscription for interests in the fund. Our private investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or "Advisers Act." Substantially all of the day-to-day operations of each investment vehicle are typically carried out by the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from funds or fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or "1940 Act," in reliance on the statutory exemptions provided by Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are "qualified purchasers" as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the United States Securities and Exchange Commission ("SEC"), Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers. With respect to BXMT, which is externally managed by a BREDS-owned entity pursuant to a management agreement, it conducts its operations in a manner that allows it to maintain its REIT qualification and also avail itself of the statutory exemption provided by Section 3(c)(5)(C) of the 1940 Act for companies engaged primarily in investment in mortgages and other liens or investments in real estate.

In some cases, one or more of our investment advisers, including GSO, BAAM and BREDS advisers, advises or sub-advises funds registered under the 1940 Act.

In addition to having an investment adviser, each investment fund that is a limited partnership, or “partnership” fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund’s business. Furthermore, all decisions concerning the making, monitoring and disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund’s general partner in its sole discretion. With the exception of certain of our funds of hedge funds, hedge funds, certain credit-focused funds, and other funds or separately managed accounts for the benefit of one or more specified investors, third party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain “key persons” in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases, a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund’s investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any reason, the investment period by a vote of 75% of the investors in such fund.

## **Incentive Arrangements / Fee Structure**

### ***Management Fees***

The following describes the management fees received by the Blackstone investment advisors.

- The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund’s capital commitments, invested capital and/or undeployed capital during the investment period and the fund’s invested capital or investment fair value after the investment period, except that the investment advisers to certain of our credit-focused carry funds and core + real estate funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. These management fees are payable on a regular basis (typically quarterly) in the contractually prescribed amounts over the life of the fund. Depending on the base upon which management fees are calculated, negative performance of one or more investments in the fund may reduce the total management fee paid, but not the fee rate.
- The investment adviser of each of our funds that are structured like hedge funds, or of our funds of hedge funds, registered mutual funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of the fund’s or account’s net asset value. These management fees are also payable on a regular basis (typically quarterly). These funds often afford investors increased liquidity through annual, semi-annual or quarterly, or in the case of registered mutual funds, daily, withdrawal or redemption rights, in some cases following the expiration of a specified period of time when capital may not be withdrawn. The amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor’s capital account grows and will proportionately decrease as the net asset value of each investor’s capital account decreases.
- The investment adviser of each of our CLOs and CDOs typically receives annual management fees based upon a percentage of each fund’s total assets, subject to certain performance measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). These management fees are also payable on a regular basis (typically quarterly). The term of each CLO and CDO varies from deal to deal and may be subject to early redemption or extension; typically, however, a CLO or CDO will be wound down within nine to eleven years of being launched. While the management fees tend to be approximately 0.5% per annum of each fund’s total assets for the term of the deal, the quantum of fees will decrease as the fund deleverages toward the end of its term.

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- The investment adviser of our separately managed accounts typically receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. The management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice.
- The investment adviser of each of our credit-focused registered and non-registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. The management fees we receive from the registered investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice.
- The investment adviser of BXMT receives annual management fees based upon a percentage of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its net income, calculated under accounting principles generally accepted in the United States of America ("GAAP"), excluding certain non-cash and other items), subject to certain adjustments. The management fees we receive from managing BXMT are paid quarterly and increase or decrease based on, among other things, BXMT's net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments).

For additional information regarding the management fee rates we receive, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition — Management and Advisory Fees, Net."

### ***Incentive Fees***

The general partners or similar entities of each of our hedge fund structures receive performance-based allocation fees ("incentive fees") of generally up to 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry-forward (known as a "high water mark") and/or other hurdle provisions. In some cases, the investment adviser of each of our funds of hedge funds, separately managed accounts that invest in hedge funds and certain non-U.S. registered investment companies is entitled to an incentive fee of generally up to 15% of the applicable investment vehicle's net appreciation, subject to a high water mark and in some cases a preferred return. In addition, for the business development companies we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum (in certain cases paid quarterly), subject to a preferred return. The external manager of BXMT is entitled to an incentive fee, payable quarterly, in an amount, not less than zero, equal to the product of (a) 20% and (b) the excess of (i) BXMT's core earnings for the previous 12-month period over (ii) an amount equal to 7% per annum multiplied by BXMT's average outstanding equity (as defined in the management agreement), provided that BXMT's core earnings over the prior three-year period is greater than zero. In addition, the general partner of certain BPP funds is entitled to an incentive fee allocation of up to 10% of excess profits, if any limited partner achieves a cumulative investment return in excess of a 7% hurdle rate. Incentive Fees are realized at the end of a measurement period, typically annually (but in certain real estate funds the measurement period is as long as three years). Once realized, such fees are not subject to clawback.

### ***Carried Interest***

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.



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The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a “realized gain” basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused funds, real estate debt funds, multi-asset class investment funds and secondary funds of funds are generally entitled to a carried interest that ranges from 10% to 20% depending on the specific fund. Net realized income or loss is not netted between or among funds.

For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 5% to 10%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund (or earlier with respect to our real estate, real estate debt and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in a carry fund’s life, (a) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) of the fund’s net profits over the life of the fund, or (in certain cases) (b) the carry fund has not achieved investment returns that exceed the preferred return threshold, then we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which the relevant general partner we are ultimately entitled on an after tax basis. This obligation is known as a “clawback” obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and carried interest of other funds is not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share of the clawback obligation then due, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2015, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see “Item 1A. Risk Factors — We may not have sufficient cash to pay back ‘clawback’ obligations if and when they are triggered under the governing agreements with our investors.”

### ***Advisory Fees***

Many of our investment advisers, especially private equity and real estate advisers, receive customary fees (for example, acquisition fees or origination fees) upon consummation of many of the funds’ transactions, receive monitoring fees from many of the funds’ portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees that they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such limited partner’s share of the transaction fees and certain other fees that they receive.

### **Capital Invested In and Alongside Our Investment Funds**

To further align our interests with those of investors in our investment funds, we have invested the firm’s capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital

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commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity Needs” for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional “co-investments” with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as “side-by-side investments,” with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

### **Competition**

The asset management industry is intensely competitive, and we expect it to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. With respect to outside investors, many have increased the amount of commitments they are making to alternative investment funds. However, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Competitors may also be subject to different regulatory regimes or rules that may provide them more flexibility or better access to pursue transactions or raise capital for their investment funds.

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In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment.

In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see “Item 1A. Risk Factors — Risks Related to Our Business — The asset management business is intensely competitive.”

## **Employees**

As of December 31, 2015, we employed approximately 2,060 people, including our 104 senior managing directors and approximately 790 other investment professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

## **Regulatory and Compliance Matters**

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients, and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our capital markets services business and certain of our fund marketing and distribution, is registered as a broker-dealer with the SEC and is subject to regulation and oversight by the SEC, is a member of the Financial Industry Regulatory Authority, or “FINRA,” and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entity. State securities regulators also have regulatory or oversight authority over our broker-dealer entity.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including the implementation of a supervisory control system over the securities business, sales practices, conduct of and compensation in connection with public and private securities offerings, use and safekeeping of customers’ funds and securities, maintenance of adequate net capital, record keeping, the financing of customers’ purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of FINRA, Blackstone Advisory Partners L.P. is subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the capital structure of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC’s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

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Pursuant to the U.K. Financial Services and Markets Act 2000, or “FSMA,” certain of our subsidiaries are subject to regulations promulgated and administered by the Financial Conduct Authority (“FCA”). The Blackstone Group International Partners LLP (“BGIP”) and GSO Capital Partners International LLP (“GSO International”) are both authorized and regulated by the FCA in the United Kingdom. The FSMA and rules promulgated thereunder form the cornerstone of legislation which governs all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures.

In addition, each of the closed-end and open-end mutual funds and investment management companies we manage is registered under the 1940 Act. The mutual funds and investment management companies and the entities that serve as those vehicles’ investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland and is authorized to act as a manager of Irish non-UCITS Collective Investment Schemes. Blackstone/GSO Debt Funds Management Europe II Limited is authorized by the Central Bank of Ireland as an Alternative Investment Fund Manager. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore: The Blackstone Group Japan K.K., a financial instruments firm, is registered with Kanto Local Finance Bureau (Kin-sho) and regulated by the Japan Financial Services Agency; The Blackstone Group (HK) Limited is regulated by the Hong Kong Securities and Futures Commission; The Blackstone Group (Australia) Pty Limited ACN 149 142 058 holds an Australian financial services license authorizing it to provide financial services in Australia (AFSL 408376), and is regulated by the Australian Securities and Investments Commission; and The Blackstone Singapore Pte. Ltd is regulated by the Monetary Authority of Singapore (Company Registration Number: 201020503E).

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms.

As described above, certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. Our Chief Legal Officer and Chief Compliance Officer, together with the Chief Compliance Officers of each of our businesses, supervise our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, personal securities trading, marketing practices, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest, the allocation of investment opportunities, collection of fees and expense allocation.

Our compliance group also monitors the information barriers that we maintain between the public and private side of Blackstone’s businesses. We believe that our various businesses’ access to the intellectual knowledge and

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contacts and relationships that reside throughout our firm benefits all of our businesses. To maximize that access without compromising our compliance with our legal and contractual obligations, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”). We have an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley compliance, and advisory practices. Internal Audit, which reports directly to the audit committee of the board of directors of our general partner, aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well managed and that controls are appropriate and effective.

Our enterprise risk management practices include review and monitoring of our business, investment and other key risks at various levels, including at the fund, business unit and corporate level. Committees comprised of members of management and representatives of various business units and corporate functions consider and evaluate legal, reputational, operational, control and other risks attendant to our business. In addition, senior management regularly reports to the audit committee of the board of directors of our general partner on risk matters, including by providing periodic risk reports, an overview of management’s view of key risks to the firm and detailed assessments of selected risks.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see “Item 1A. Risk Factors — Risks Related to Our Business — Regulatory changes in the United States could adversely affect our business” and “Item 1A. Risk Factors — Risks Related to Our Business — Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.”

**Available Information**

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

## ITEM 1A. RISK FACTORS

### Risks Related to Our Business

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital, each of which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition.*

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

Turmoil in the global financial markets, such as occurred in 2008-2009 and 2015, can provoke significant volatility of equity and debt securities prices. This can have a material and rapid impact on our mark-to-market valuations particularly with respect to our public holdings and credit investments. A lack of credit resulting from turmoil in the global financial markets in the future may materially hinder the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impact our operating results. As publicly traded equity securities represent a higher proportion of the assets of many of our carry funds than has typically been the case, stock market volatility may have a greater impact on our reported results than in the past and declines in the stock market may adversely affect our results, including our revenues and net income. Although base rates are inside of historical averages, financing costs have increased significantly in recent months, and there is concern that the monetary policy of central banks, including of the U.S. Federal Reserve, as well as other market factors, including, without limitation, gross domestic product growth in the U.S., European Union and China, commodity prices and performance of the energy credit market, may adversely impact the cost and availability of credit. In addition, many emerging economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. Continued weakness could result in lower returns than we anticipated at the time certain of our investments were made.

Although interest rates have been at historically low levels for the last few years, the U.S. Federal Reserve recently raised rates and has indicated an intention to continue raising rates in the coming months, and a period of sharply rising interest rates could have an adverse impact on our business.

Many investments made by our funds are highly illiquid, and we may not be able to realize investments in a timely manner. Challenging market and economic conditions, including volatile equity and credit markets, have resulted in reduced opportunities for our funds to exit and realize value from their existing investments and lower than expected returns on existing investments. Although the equity markets are not the only means by which we exit investments, should challenges in the equity market continue, our funds may experience increased difficulty in realizing value from investments. Challenging market and economic conditions have also made it and may in the future make it more difficult and competitive to find suitable investments for the funds to effectively deploy capital. This could adversely affect our performance and ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds' portfolio companies may experience adverse operating performance, decreased revenues, credit rating downgrades, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds'

performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently to our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. Estimates or projections of market conditions, commodity prices and supply and demand dynamics are key factors in evaluating potential investment opportunities and valuing the investments made by our funds. These estimates are subject to wide variances based on changes in market conditions, underlying assumptions, commodity prices and technical or investment-related assumptions. We are unable to predict whether and to what extent economic and market conditions will improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

In addition, the performance of the investments made by our credit and equity funds in the energy and natural resources markets are also subject to a high degree of market risk. See “— Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.”

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

A significant contraction in the market for debt financing, such as the contraction that occurred in 2008 and 2009 or other adverse change, including any regulatory changes that would limit banks' ability to provide debt financing, to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements, and/or more restrictive covenants, particularly in the area of acquisition financings for private equity and real estate transactions, would have a material adverse impact on our business. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets and/or regulatory changes render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the markets and/or regulatory changes make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

***A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.***

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such

investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of certain fees we share with our investors. As a result, for our more recent funds, the percentage of transaction and monitoring fees that we share with our investors has increased, in many cases to 100%, as compared to historical percentages, such as with our recent fundraise in our flagship private equity fund (BCP VII). This will reduce the amount of fee revenue we earn from transaction and monitoring fees. To the extent such increases continue in future fundraises, it would continue to decrease such fee revenue.

***Our revenue, earnings, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. In particular, economic and market conditions may lead to volatility in the mark-to-market valuations of investments made by our funds, particularly in respect of our public investments. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their "harvesting" period, our carry funds would make larger distributions than in the fundraising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.



With respect to most of our funds of hedge funds as well as our credit-focused, and real estate debt and core+ funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have “high water marks” whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our initial public offering (“IPO”), our \$600 million debt offering in August 2009, our \$400 million debt offering in September 2010, our \$650 million debt offering in August 2012, our \$500 million debt offering in April 2014, our \$350 million debt offering in April 2015, and our €300 million debt offering in May 2015, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.1 billion revolving credit facility with a final maturity date of May 29, 2019. Our long-term debt totaled \$2.8 billion in borrowings from the 2009, 2010, 2012, 2014 and 2015 bond issuances and we had no borrowings outstanding against our \$1.1 billion revolving credit facility as of December 31, 2015. At the end of 2015, we had \$1.8 billion in cash, \$2.2 billion invested in our Treasury Cash Management Strategies, \$159.8 million invested in liquid Blackstone funds, \$1.9 billion invested in illiquid Blackstone funds and \$129.5 million invested in other investments.

If the global economy and conditions in the financing markets worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets, which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

***We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals.

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Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds' carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence — Blackstone Holdings Partnership Agreements") and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings Partnership Units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings Partnership Units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings Partnership Units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See "— Risks

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Related to United States Taxation — Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) the diversion of management’s attention from our core businesses, (d) assumption of liabilities in any acquired business, (e) the disruption of our ongoing businesses, (f) the increasing demands on or issues related to the combining or integrating operational and management systems and controls, (g) compliance with additional regulatory requirements, and (h) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. These activities have and will continue to impose additional compliance burdens on us and could also subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. See “— We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.” In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses could result in substantial tax liability for us and/or our unitholders.***

On October 1, 2015, we completed the previously-announced spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses and combined these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman, to form an independent publicly traded company. We may be responsible for U.S. federal income tax liabilities that relate to the spin-off if certain internal reorganization transactions in connection with the spin-off fail to qualify as tax-free, and our unitholders may also incur U.S. federal income tax liability in such circumstances.

***The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.***

Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or “ISPI,” as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Some legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, common unitholders could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

The Obama administration has made similar proposals that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposals would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2015 and prior years.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, New York has considered legislation which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity-level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to common unitholders would be reduced.

***Additional proposed changes in the U.S. and foreign taxation of businesses could adversely affect us.***

Congress, the Organization for Economic Co-operation and Development (“OECD”) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting (“BEPS”) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. Additionally, the Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, anti-inversion rules, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity-level income tax similar to the corporate income tax. Several of these proposals for reform, if enacted by the United States or by other countries in which we or our affiliates invest or do business, could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

Other proposals by members of Congress have contemplated the migration of the United States from a “worldwide” system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The territorial tax system proposals envisage a revenue neutral result and consequently include numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us. A variation of this proposal contemplates a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. Such proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Speaker of the House Paul Ryan has also identified comprehensive tax reform as a priority for the next Congress. Whether these or other proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (“IFRS”) instead of under GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board (“IASB”) and are more focused on objectives and principles and less reliant on

detailed rules than GAAP. Today, there remain significant and material differences in several key areas between GAAP and IFRS which would affect Blackstone. Additionally, GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems face ongoing cybersecurity threats and attacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where many of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds' operations and could affect our reputation and hence adversely affect our businesses.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business.***

Our business is subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations in the jurisdictions in which we operate around the world. These authorities have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are also empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the SEC has

specifically focused on private equity. In that connection, the SEC's list of examination priorities includes, among other things, private equity firms' collection of fees and allocation of expenses, their marketing and valuation practices and allocation of investment opportunities. We regularly are subject to requests for information and informal or formal investigations by the SEC and other regulatory authorities, with which we routinely cooperate and, in the current environment, even historical practices that have been previously examined are being revisited. For example, in October 2015, without admitting or denying any wrongdoing, three of our private equity fund advisors consented to the entry of an order settling certain matters in connection with funds formed many years ago relating to historical monitoring fee termination practices and historical practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were charged in 2011. See "Item 3. Legal Proceedings" for additional information. SEC actions and initiatives can have an adverse effect on our financial results, including as a result of the imposition of a sanction or changing our historic practices. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new clients.

***We rely on complex exemptions from statutes in conducting our asset management activities.***

We regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or "Securities Act," the Exchange Act, the 1940 Act, the Commodity Exchange Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. For example, in 2014, the SEC amended Rule 506 of Regulation D under the Securities Act to impose "bad actor" disqualification provisions which ban an issuer from offering or selling securities pursuant to the safe harbor rule in Rule 506 if the issuer, or any other "covered person," is the subject of a criminal, regulatory or court order or other "disqualifying event" under the rule which has not been waived. The definition of "covered person" under the rule includes an issuer's directors, general partners, managing members and executive officers; affiliates who are also issuing securities in the offering; beneficial owners of 20% or more of the issuer's outstanding equity securities; and promoters and persons compensated for soliciting investors in the offering. Accordingly, our ability to rely on Rule 506 to offer or sell securities would be impaired if we or any "covered person" is the subject of a disqualifying event under the rule and we are unable to obtain a waiver. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

***We and our affiliates from time to time are required to report specified dealings or transactions involving Iran or other sanctioned individuals or entities.***

The Iran Threat Reduction and Syrian Human Rights Act of 2012 ("ITRA") expands the scope of U.S. sanctions against Iran. More specifically, Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2015, August 6, 2015 and November 5, 2015 as well as Exhibit 99.1 of this Annual Report on Form 10-K, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to

initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the United States. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, senior officials at the SEC have recently emphasized their intention to implement a “broken windows” policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters. The Director of the SEC’s Division of Enforcement has described “broken windows” as a zero tolerance policy.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

- As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC. Private equity and hedge fund advisers registered with the SEC under the Advisers Act are required to maintain extensive records and to file reports.
- On December 16, 2015, the Commodity Futures Trading Commission (“CFTC”) published a final rule governing margin requirements for uncleared swaps entered into by swap dealers and major swap participants subject to CFTC regulation. The final rule, which becomes effective on April 1, 2016, generally requires covered swap entities, subject to certain thresholds and exemptions for inter-affiliate swaps, to collect and post margin in respect of uncleared swap transactions with other covered swap entities and financial end-users. These newly adopted rules on margin requirements for uncleared swaps could adversely affect our business, including our ability to enter such swaps or our available liquidity.
- The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. On March 2, 2011, the SEC proposed a rule, as part of a joint rulemaking effort with U.S. federal banking regulators, that would apply to “covered financial institutions,” including registered investment advisers and broker-dealers that have total consolidated assets of at least \$1 billion, and imposes substantive and procedural requirements on incentive-based compensation arrangements. The proposed rule remains pending and may be revised and re-proposed by the agencies in 2016 for additional notice and comment. The application of this rule to us could limit our ability to recruit and retain investment professionals and senior management executives.
- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities had a so-called “conformance period,” which ran until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an



extension by the Federal Reserve or an exemption for certain “permitted activities.” On December 10, 2013, the Federal Reserve and other federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. For investments in and relationships with certain funds that were in place prior to December 31, 2013, the Federal Reserve announced its intent to give banking entities until July 21, 2017 to comply with the Volcker Rule. In addition, an extension of up to five years may be sought by banking entities for investments in certain illiquid funds. We do not currently anticipate that the Volcker Rule will adversely affect our fundraising to any significant extent.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

There has been increasing commentary amongst regulators and intergovernmental institutions, including the Financial Stability Board and International Monetary Fund, on the topic of so-called “shadow banking,” a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system. While, at this stage, it is difficult to predict the scope of any new regulations, if regulators were to extend regulatory and supervisory requirements to certain sectors or funds of our business, such as capital and liquidity buffer requirements, currently applicable to banks, or if we are considered to be engaged in “shadow banking,” the regulatory and operating costs associated therewith could adversely impact the implementation of our business. In the United States:

- The process established by the Dodd-Frank Act for designation of systemically important non-bank firms has provided a means for ensuring that the perimeter of prudential regulation can be extended as appropriate to cover large shadow banking institutions. The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies determined to be “systemically important” for supervision by the Federal Reserve. Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States.
- On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate non-bank financial companies as systemically important. The final rule and interpretive guidance details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC applies a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC considers whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve. To date, the Federal Reserve has made designations of four non-bank companies as “systemically important” subject to Federal Reserve supervision, none of which included asset management firms or funds.
- On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.

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- In connection with the work of the FSOC, on October 31, 2011, the SEC and the CFTC issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports, on Form PF, focusing primarily on the extent of leverage incurred by their funds' portfolio companies, the use of bridge financing and their funds' investments in financial institutions.

Rule 206(4)-5 under the Advisers Act regarding "pay to play" practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding "pay to play" practices by investment advisers.

In June 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, announced the final framework for a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by member states. In July 2013, the U.S. federal banking regulators announced the adoption of final regulations to implement Basel III for U.S. banking organizations, subject to various transition periods. Compliance with the Basel III standards may result in significant costs to banking organizations, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See "— Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or refinancing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income." In the United States, regulations have been proposed by the federal banking agencies, but they remain pending.

In March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. In November 2015, in connection with the banking agencies' most recent review of large credits under the Shared National Credit review, the agencies noted high credit risk and weaknesses related to leveraged lending and for loans related to oil and gas exploration, production and energy services. To the extent that such guidance limits the amount or cost of financing we are able to obtain for our transactions, the returns on our investments may suffer. In addition, in December 2015, the U.S. federal banking agencies issued a statement cautioning financial institutions on rising concentrations in commercial real estate and an easing of related underwriting standards.

In addition, in December 2015, the SEC proposed a new rule that would reduce the ability of registered investment companies to utilize derivatives and other instruments that could be deemed to leverage a fund's portfolio, which if adopted in its current form, may impact the ability of certain of our registered funds to continue pursuing certain aspects of their current investment strategies.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in

regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

***Changes in U.S. and foreign tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act (“FATCA”), all entities in a broadly defined class of foreign financial institutions (“FFIs”) are required to comply with a complicated and expansive reporting regime or be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors. Other countries such as the United Kingdom and the Cayman Islands have implemented regimes similar to that of FATCA. Compliance with such regimes could result in increased administrative and compliance costs and could subject our investment entities to increased non-U.S. withholding taxes.

***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Union Alternative Investment Fund Managers Directive (the “Directive”), as transposed into national law within the member states of the European Union (the “EU”), established a new regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. It is intended that the Directive will apply in the additional member states of the European Economic Area (“EEA”), namely, Norway, Iceland and Liechtenstein, but to date the Directive has not yet been referenced in the Agreement on the European Economic Area (expected in 2016) (but for convenience we refer to the EEA). The Directive regulates managers established in or with a registered office in the EEA managing one or more alternative investments funds but it also impacts non EEA-based managers, such as our affiliates, when they market securities of alternative investment funds in the EEA. We have had to comply with certain requirements of the Directive in order to market our investment funds to professional investors in the EEA, including compliance with prescribed pre-investment disclosures, prescribed annual report disclosures, prescribed periodic reporting to regulators in respect of each fund marketed and asset-stripping restrictions in relation to the acquisition of non-listed companies or issuers established in the EEA (these restrictions prohibit certain distributions to shareholders for 24 months following closing of an acquisition). The Directive makes provision for member states to permit non-EEA managers to market funds to professional investors under national private placement rules, but there is no requirement for member states to operate or maintain a national private placement regime and, if they do, the member state is free to impose rules that are stricter than the minimum required. In some cases this has restricted our ability to market our investment funds, e.g., in those states that do not operate national private placement and/or impose such requirements that make it disproportionately burdensome to do so. It is possible that, from some future date, but not earlier than July 2019, we will be required to comply with the Directive in full in order to market our investment funds to professional investors in the EEA, and we may elect to comply at an earlier point in time (if that option should become available) in order to facilitate such marketing. In either case this would subject us to a number of additional requirements, including rules relating to the remuneration of certain personnel, certain capital requirements for alternative

investment fund managers, leverage oversight for each investment fund, liquidity management, and retention of depositaries for each investment fund. Compliance with the requirements of the Directive will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

Following the financial crisis the Financial Stability Board (“FSB”) has taken on an increasingly important role in promoting the reform of international financial regulation through coordinating national financial authorities and international standard-setting bodies in their development of regulatory, supervisory and financial sector policies.

One of the risks identified by the FSB to the stability of the financial system is credit intermediation (involving maturity and liquidity transformation) and/or a build-up of leverage by non-bank entities—so-called “shadow banking”. The FSB has proposed adoption of a two-pronged strategy to address financial stability risks in shadow banking: (a) create a monitoring framework to track developments in shadow banking; and (b) coordinate and contribute to the development of policies to strengthen oversight and regulation of shadow banking, focusing on measures to: (i) mitigate risks in banks’ interactions with shadow banking entities; (ii) reduce the susceptibility of money market funds to “runs”; (iii) improve transparency and align the incentives in securitization; (iv) dampen pro-cyclicality and other financial stability risks in securities financing transactions such as repos and securities lending; and (v) assess and mitigate financial stability risks posed by other shadow banking entities and activities.

In December 2015 (effective January 1, 2017), the European Banking Authority (“EBA”) produced guidelines to set appropriate aggregate limits to shadow banking entities when carrying out banking activities. While most alternative investment funds are excluded from the definition of “shadow banking entity,” funds that use leverage on a substantial basis at fund level or have certain third party lending exposures are within the definition. When dealing with shadow banking entities, the EEA financial institution would be required to implement additional effective processes (including with respect to due diligence) and set internal aggregate and individual limits to such exposures where they exceed 0.25% of the institution’s eligible capital. While the guidelines do not themselves introduce a quantitative limit to institutions’ exposures to shadow banking entities at the individual or aggregate exposure level, they place the responsibility on the banking sector to demonstrate that risks are managed effectively. Affected institutions will be required to set internal aggregate and individual limits to exposures to individual shadow banking entities which could limit or restrict the availability of credit and/or increase the cost of credit from these institutions for impacted funds.

Changes in tax laws by foreign jurisdictions could result from BEPS projects being undertaken by the OECD. The OECD, which represents a coalition of member countries, is contemplating changes to numerous international tax principles, including interest deductibility, transfer pricing, and eligibility for the benefits of double tax treaties. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone’s non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Growth Capital Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued \$600 million of ten-year senior notes at a rate of 6.625% per annum, in September 2010, we issued \$400 million of ten-year senior notes at a rate of 5.875% per annum, in August 2012, we issued \$400 million of ten-year senior notes at a rate of 4.75% per annum and \$250 million of thirty-year senior notes at a rate of 6.25% per annum, in April 2014, we issued \$500 million of thirty-year senior notes at a rate of 5% per annum, in April 2015, we issued \$350 million of thirty-year senior notes at a rate of 4.45% per annum, and in May 2015, we issued €300 million of ten-year senior notes at a rate of 2% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under “— Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.” In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We have a credit facility which provides for revolving credit borrowings that has a final maturity date of May 29, 2019. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or by issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds' use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against the financial services industry in general have been increasing. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the risk of third party litigation arising from investor dissatisfaction with the performance of those investment funds, alleged conflicts of interest, the activities of our portfolio companies and a variety of other litigation claims. From time to time we, our funds and our portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see “Item 3. Legal Proceedings” below for additional information.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

The activities of our capital markets services business may also subject us to the risk of liabilities to our clients and third parties, including our clients' stockholders, under securities or other laws in connection with transactions in which we participate.

In addition, our plan, to the extent that market conditions permit, is to continue to grow our investment businesses and expand into new investment strategies, geographic markets, businesses and distribution channels, including the retail channel. To the extent we distribute products through new channels, including through

unaffiliated firms, we may not be able to effectively monitor or control the manner of their distribution, which could result in litigation against us, including with respect to, among other things, claims that products distributed through such channels are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner. In addition, the distribution of products through new channels whether directly or through market intermediaries, including in the retail channel, could expose us to additional regulatory risk in the form of allegations of improper conduct and/or actions by state and federal regulators against us with respect to, among other things, product suitability, conflicts of interest and the adequacy of disclosure to customers to whom our products are distributed through those channels.

If any private lawsuits or regulatory actions were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities, our new lines of business or distribution channels, or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (“FCPA”). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA, the UK anti-bribery laws or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we may also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, financial fraud or other deceptive practices at our portfolio companies, or failures by personnel at our portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements, could cause significant reputational and business harm to us. Such misconduct may undermine our due diligence efforts with respect to such portfolio companies and could negatively affect the valuations of the investments by our funds in such portfolio companies. In addition, we may face an increased risk of such misconduct to the extent our investment in non-U.S. markets, particularly emerging markets, increases.

***Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.***

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund's life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds' performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue. A significant number of fund sponsors have recently decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance.

***Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.***

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been, and may in the future be, exacerbated by economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although the amount of commitments investors are making to alternative investment funds has increased in recent years, there is no assurance that this will continue or that our ability to raise capital from investors will not be hampered.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as profitable for us as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients. As some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. Our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so in our funds. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ("cap rates") analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value. In determining fair values of exploration and production (E&P) investments within the energy



sector, we consider the following: projected operating cash flows resulting from the utilization of third-party analysis of the reserve quantities, which may from time to time be adjusted for management's view, combined with the forward strip price for the specific commodity in the near-term, Blackstone Energy Partner's long-term view of the commodity price in the outer years, sales of comparable assets, and replacement costs. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as barrel of oil equivalent, or BOE, by a relevant reserve metric observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to other similar methods. Additionally, where applicable, given the structured nature of some of the preferred securities, projected distributable cash flow through maturity or other triggering events will also be considered in support of the investment's carrying value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- we may create new funds in the future that reflect a different asset mix and different investment strategies, as well as a varied geographic and industry exposure as compared to our present funds, and any such new funds could have different returns from our existing or previous funds,

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- as the global markets rebounded from the financial crisis in recent years, market conditions were largely favorable, which helped to generate positive performance, particularly in our private equity and real estate businesses, although there can be no assurance that such conditions will repeat or that our current or future investment funds will avail themselves of comparable market conditions,
- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,
- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,
- in recent years, there has been increased competition for private equity investment opportunities resulting from, among other things, the increased amount of capital invested in alternative investment funds,
- our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves, our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and the circumstances under which our current or future funds may make future investments may differ significantly from those conditions prevailing in the past,
- newly established funds may generate lower returns during the period in which they initially deploy their capital, and
- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

The future internal rate of return for any current or future fund may vary considerably from the historical internal rate of return generated by any particular fund, or for our funds as a whole. In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

### ***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, in March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. Such guidance may limit the amount or cost of financing we are able to obtain for our transactions, and as a result, the returns on our investments may suffer. See "— Regulatory changes in the United States could adversely affect our business."

In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

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Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory pre-payments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs and CDOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost — and the timing and magnitude of such losses may be accelerated or exacerbated — in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

***The asset management business is intensely competitive.***

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds), and we expect that competition will continue to increase. A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,
- some of our funds may not perform as well as competitors' funds or other available investment products,
- several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,
- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,
- some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,
- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former "star" portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,
- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Moreover, because the investment strategy of many of our funds, particularly our private equity funds, often entails our having representation on our funds' public portfolio company boards, our funds may be restricted in their ability to effect such sales during certain time periods. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer — potentially for a considerable period of time — sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized

investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as “consortium transactions” due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in “— Our investment funds make investments in companies that we do not control.”

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

***Our investment funds make investments in companies that we do not control.***

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in “— We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments”) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

***We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds’ portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,

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- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,
- heightened exposure to corruption risk in non-U.S. markets,
- political hostility to investments by foreign or private equity investors,
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,
- higher rates of inflation,
- higher transaction costs,
- difficulty in enforcing contractual obligations,
- fewer investor protections and less publicly available information in respect of companies in non-U.S. markets,
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and
- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

***We may not have sufficient cash to pay back “clawback” obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in any carry fund’s life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) the fund’s net profits over the life of the fund, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled on an after tax basis. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. To the extent we are required to fulfill a clawback obligation, however, our general partner may determine to decrease the amount of our distributions to common unitholders. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and performance of other funds are not netted for determining this contingent obligation.

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Adverse economic conditions may increase the likelihood that one or more of our carry funds may be subject to clawback obligations upon the end of their respective lives (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds). To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50-67%) beyond what we actually received in carried interest, although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn, subject to the applicable fund's specific redemption provisions. In a declining market, many hedge funds, including some of our hedge funds, may experience declines in value, and the pace of redemptions and consequent reduction in our assets under management could accelerate. Such declines in value may be both provoked and exacerbated by margin calls and forced selling of assets. To the extent appropriate and permissible under a fund's constituent documents, we may limit or suspend redemptions during a redemption period, which may have a reputational impact on us. See "— Hedge fund investments are subject to numerous additional risks." The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice. In addition, the boards of directors of the investment management companies we manage, or the adviser in respect of the registered business development company we sub-advise, could terminate our advisory engagement of those



companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a "clawback" obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a specified percentage (including, in certain cases, a simple majority) vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition, the governing agreements of some of our investment funds provide that investors have the right to terminate, for any reason, the investment period by a vote of 75% of the investors in such fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an "assignment," without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our 1940 Act registered funds, each investment fund's investment management agreement must be approved annually by the independent members of such investment fund's board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. A default by an investor may also limit a fund's availability to incur borrowings and avail itself of what would otherwise have been available credit. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. Third-party investors in private equity, real estate and venture capital funds typically use distributions from prior investments to meet future capital calls. In cases where valuations of investors' existing investments fall and the pace of distributions slows, investors may be unable to make new commitments to third-party managed investment funds such as those advised by us. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.***

Because of our various lines of asset management businesses and our capital markets services business, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

***Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. In addition, the challenge of allocating investment opportunities to certain funds may be exacerbated as we expand our business to include more public vehicles. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

***Risk management activities may adversely affect the return on our funds' investments.***

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC has made several public statements that it may soon issue a proposal for certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges.

***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets, including the deterioration of real estate fundamentals. These risks include, but are not limited to, those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, operating income, the financial resources of tenants, changes in building, environmental, zoning and other laws, casualty or condemnation losses, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, acts of god, terrorist attacks, war and other factors that are beyond our control. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. In addition, our real estate funds may also make investments in residential real estate projects and/or otherwise participate in financing opportunities relating to residential real estate assets or portfolios thereof from time to time, which may be more highly susceptible to adverse changes in prevailing economic and/or market conditions and present additional risks relative to the ownership and operation of commercial real estate assets.

***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect

our reputation. In addition, in a recent 2013 federal Circuit Court case, the Court determined that a private equity fund could be liable for ERISA Title IV pension obligations (including withdrawal liability incurred with respect to union multiemployer plans) of its portfolio companies, if such fund is a “trade or business” and the fund’s ownership interest in the portfolio company is significant enough to bring the portfolio company within its “controlled group.” While a number of cases have held that managing investments is not a “trade or business” for tax purposes, the Circuit Court in this case concluded the a private equity fund could be a “trade or business” for ERISA purposes based on certain factors, including the fund’s level of involvement in the management of its portfolio companies and the nature of its management fee arrangements. The Circuit Court case did not conclude whether the fund in question and its portfolio companies were part of the same “controlled group.”

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, approximately 70% of the investments of our real estate funds (based on fair values as of December 31, 2015) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***Investments by our funds in the power and energy industries involve various operational, construction, regulatory and market risks that could adversely affect our results of operations, liquidity and financial condition.***

The development, operation and maintenance of power and energy generation facilities involves many risks, including, as applicable, labor issues, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, the dependence on a specific fuel source, volatility in the price of fuel sources, or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses. In turn, such developments could impair a portfolio company’s ability to repay its debt or conduct its operations. We may also choose or be required to decommission a power generation facility or other asset. The decommissioning process could be protracted and result in the incurrence of significant financial and/or regulatory obligations or other uncertainties.

Our power and energy sector portfolio companies may also face construction risks typical for power generation and related infrastructure businesses. Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher operation and maintenance costs related to such portfolio company.

The power and energy sectors are the subject of substantial and complex laws, rules and regulation by various federal and state regulatory agencies. Failure to comply with applicable laws, rules and regulations could result in the prevention of operation of certain facilities or the prevention of the sale of such a facility to a third party, as well as the loss of certain rate authority, refund liability, penalties and other remedies, all of which could result in additional costs to a portfolio company and adversely affect the investment results.

Our businesses that invest in the energy industry also focus on investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including:

- the use of new technologies, including hydraulic fracturing,
- reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and

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- encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks.

In addition, the performance of the investments made by our credit and equity funds in the energy and natural resources markets are also subject to a high degree of market risk, as such investments are likely to be, directly or indirectly substantially dependent upon prevailing prices of oil, natural gas and other commodities. Oil and natural gas prices are subject to wide fluctuation in response to factors beyond the control of us or our portfolio companies, including relatively minor changes in the supply and demand for oil and natural gas, market uncertainty, the level of consumer product demand, weather conditions, governmental regulation, the price and availability of alternative fuels, political and economic conditions in oil producing countries, foreign supply of such commodities and overall domestic and foreign economic conditions. These factors make it difficult to predict future commodity price movements with any certainty.

***The financial projections of our portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

***Hedge fund investments are subject to numerous additional risks.***

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.
- Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.
- Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many

cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets.

***We are subject to risks in using prime brokers, custodians, counterparties, administrators and other agents.***

Many of our funds depend on the services of prime brokers, custodians, counterparties, administrators and other agents to carry out certain securities and derivatives transactions. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight, although the Dodd-Frank Act provides for new regulation of the derivatives market. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur suddenly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack contractual recourse or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which is when defaults are most likely to occur.

In addition, our risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not have taken sufficient action to reduce our risks effectively. Default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

Although we have risk-management models and processes to ensure that we are not exposed to a single counterparty for significant periods of time, given the large number and size of our funds, we often have large positions with a single counterparty. For example, most of our funds have credit lines. If the lender under one or more of those credit lines were to become insolvent, we may have difficulty replacing the credit line and one or more of our funds may face liquidity problems.

In the event of a counterparty default, particularly a default by a major investment bank or a default by a counterparty to a significant number of our contracts, one or more of our funds may have outstanding trades that they cannot settle or are delayed in settling. As a result, these funds could incur material losses and the resulting market impact of a major counterparty default could harm our businesses, results of operation and financial condition.

In the event of the insolvency of a prime broker, custodian, counterparty or any other party that is holding assets of our funds as collateral, our funds might not be able to recover equivalent assets in full as they will rank among the prime broker's, custodian's or counterparty's unsecured creditors in relation to the assets held as collateral. In addition, our funds' cash held with a prime broker, custodian or counterparty generally will not be segregated from the prime broker's, custodian's or counterparty's own cash, and our funds may therefore rank as unsecured creditors in relation thereto. If our derivatives transactions are cleared through a derivatives clearing organization, the CFTC has issued final rules regulating the segregation and protection of collateral posted by customers of cleared and uncleared swaps. The CFTC is also working to provide new guidance regarding prime broker arrangements and intermediation generally with regard to trading on swap execution facilities.

The counterparty risks that we face have increased in complexity and magnitude as a result of disruption in the financial markets in recent years. For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In addition, counterparties have generally reacted to recent market volatility by tightening their underwriting standards and increasing their margin requirements for all categories of financing, which has the result of decreasing the overall amount of leverage available and increasing the costs of borrowing.

***Underwriting activities by our capital markets services business expose us to risks.***

We act as an underwriter in securities offerings through our capital markets services business. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

**Risks Related to Our Organizational Structure**

***Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.***

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding limited liability matters. As of December 31, 2015, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 49.5% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.



***Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.***

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under "— Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business," our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,

- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,
- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,
- other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,
- our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,
- our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us,
- our general partner controls the enforcement of obligations owed to us by it and its affiliates, and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See “Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence” and “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a

decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone’s track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

***We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.***

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and our funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and may change at any time, including, without limitation, to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, including the timing and extent of our realizations, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

***The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.***

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2015, we have \$345.5 million of finite-lived intangible assets (in addition to \$1.7 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from three to twenty years, using the straight-line method, with a weighted-average remaining amortization period of 6.4 years as of December 31, 2015. In addition, as part of the reorganization at the time of our IPO, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units

(which was \$31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the "corporate taxpayers," would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings Partnership Units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings Partnership Units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings Partnership Units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable

agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an "investment company" under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an "investment company" for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and capital markets services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and capital markets firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an "orthodox" investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings Partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings Partnerships and are vested with all management and control over the Blackstone Holdings Partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

## Risks Related to Our Common Units

### *Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 565,216,681 voting common units outstanding as of February 19, 2016. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 543,983,293 Blackstone Holdings Partnership Units outstanding as of February 19, 2016. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings Partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings Partnership Units. See "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence — Transactions with Related Persons — Registration Rights Agreement." While the partnership agreements of the Blackstone Holdings Partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it non-voting common units. Beijing Wonderful Investments currently owns 59,083,468 non-voting common units. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 19, 2016, we had granted 17,017,802 outstanding deferred restricted common units and 43,166,834 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan ("2007 Equity Incentive Plan"). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 166,340,808 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 19, 2016. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

***The market price of our common units may be volatile, which could cause the value of your investment to decline.***

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

**Risks Related to United States Taxation**

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or “IRS,” and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the “Qualifying Income Exception”), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under “— The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units,” the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to



address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders' beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The value of our common units depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See “— The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.” For example, because of widespread state budget deficits, several states have evaluated ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the

1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder's tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder's tax basis in the units), but will instead report the holder's allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or "CFC," and a Passive Foreign Investment Company, or "PFIC," may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

***The Blackstone Group L.P.'s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such

common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

***If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings Partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or "ECI." Moreover, dividends paid by an investment that we make in a real estate investment trust, or "REIT," that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to certain non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate. A portion of any gain recognized by a non-U.S. holder on the sale or exchange of common units could also be treated as ECI.

***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as deriving income that constitutes "unrelated business taxable income," or "UBTI." Consequently, a holder of common units that is a tax-exempt organization may be subject to "unrelated business income tax" to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

***While we anticipate that we will be able to provide to each unitholder specific tax information within 90 days after the close of each calendar year, we cannot guarantee this will be the case. To the extent we are unable to furnish the information within 90 days, holders of common units who are U.S. taxpayers may need to file a request for an extension of the due date of their income return. In addition, it is possible that common unitholders may be required to file amended income tax returns.***

It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, is the responsibility of each common unitholder.

***Certain U.S. holders of common units are subject to additional tax on "net investment income."***

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on "net investment income" (or undistributed "net investment income," in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. Net income and gain attributable to an investment in the Partnership will be included in a U.S. holder's "net investment income" subject to this Medicare tax.

*We may be liable for adjustments to our tax returns as a result of recently enacted legislation.*

Legislation was recently enacted that significantly changes the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and, unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under the elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. If a partnership elects the alternative procedure for a given adjustment, the amount of taxes for which its partners would be liable would be increased by any applicable penalties and a special interest charge. There can be no assurance that we will be eligible to make such an election or that we will, in fact, make such an election for any given adjustment. If we do not or are not able to make such an election, then (a) our then-current common unitholders, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had we elected the alternative procedure, and (b) a given common unitholder may indirectly bear taxes attributable to income allocable to other common unitholders or former common unitholders, including taxes (as well as interest and penalties) with respect to periods prior to such holder's ownership of common units. Amounts available for distribution to our common unitholders may be reduced as a result of our obligation to pay any taxes associated with an adjustment. Many issues and the overall effect of this new legislation on us are uncertain, and common unitholders should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2015, we lease our offices in Beijing, Dubai, Dublin, Düsseldorf, Hong Kong, Houston, London, Los Angeles, Madrid, Montecito, Mexico City, Mumbai, Paris, Sao Paulo, Seoul, Shanghai, Singapore, Sydney, Tokyo and Toronto. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

**ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See "Item 1A. Risk Factors" above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

The SEC has publicly indicated that it is specifically focused on private equity practices regarding fees and other conflicts of interest, including, among other things, the widespread industry practice of receiving fees from portfolio companies in connection with the termination of monitoring agreements upon the initial public offering or disposition of such companies. The SEC had reviewed our historical monitoring fee practices in 2011 — 2012 in their regular exam process. In June 2014, we voluntarily modified our monitoring fee practices in ways that are beneficial to our private equity investors, including eliminating any such payments beyond the year of sale for full dispositions and limiting payments following IPOs. This followed the expansion in 2012 of the disclosure that was already being made to private equity investors regarding such fees. As previously disclosed, in October 2014 the SEC informally requested additional information about our historical monitoring fee termination practices. The SEC

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also asked for additional information about certain pre-2011 practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were changed in 2011 and had also been previously reviewed by the SEC in 2012. As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, on October 7, 2015, without admitting or denying any wrongdoing, three of Blackstone's private equity fund advisers (the "Fund Advisers") consented to the entry of an order settling these matters in connection with funds formed many years ago. According to the SEC order, with respect to these legacy funds, the Fund Advisers did not provide sufficient pre-commitment disclosure regarding the possibility of accelerating otherwise authorized fees upon termination of monitoring fee agreements with their portfolio companies. The SEC order recognized, however, that such fees were disclosed in distribution notices, quarterly reports and in the case of initial public offerings of portfolio companies, in Form S-1 filings, and were subject to an explicit Limited Partner Advisory Committee objection right that was never exercised. The order also found that the Fund Advisers did not adequately disclose that certain legal fee discounts they received, prior to 2011, were greater than discounts received by the funds. The SEC order recognized, however, that in early 2011, the Fund Advisers voluntarily changed this policy. The Fund Advisers agreed as part of the settlement to pay disgorgement of \$26,225,203 (plus prejudgment interest of \$2,686,553) to limited partners of those funds and a civil monetary penalty of \$10,000,000 to the SEC.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common units representing limited partner interests are traded on the New York Stock Exchange ("NYSE") under the symbol "BX." Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 19, 2016 was 98. This does not include the number of unitholders that hold common units in "street name" through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per common unit, for the periods indicated, as reported by the NYSE and the per unit common unitholder distributions for the indicated fiscal quarters:

	2015			2014		
	High	Low	Common Unitholder Distributions (a)	High	Low	Common Unitholder Distributions (a)
First Quarter	\$39.62	\$32.36	\$ 0.89	\$35.39	\$29.51	\$ 0.35
Second Quarter	\$44.43	\$38.31	\$ 0.74	\$34.48	\$27.56	\$ 0.55
Third Quarter	\$42.60	\$28.56	\$ 0.49	\$36.08	\$30.71	\$ 0.44
Fourth Quarter	\$35.24	\$26.82	\$ 0.61	\$34.70	\$26.56	\$ 0.78

(a) Per common unit, presented on a fiscal quarter basis.

**Cash Distribution Policy**

With respect to fiscal year 2015, we have paid to common unitholders distributions of \$0.89, \$0.74, \$0.49 and \$0.61 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.73 per common unit. We have also paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.90, \$0.74, \$0.49 and \$0.65 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.78 per Blackstone Holdings Partnership Unit.

With respect to fiscal year 2014, we paid to common unitholders distributions of \$0.35, \$0.55, \$0.44 and \$0.78 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.12 per common unit. We also paid \$0.38, \$0.60, \$0.56 and \$0.92 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.46 per Blackstone Holdings Partnership Unit.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount distributed could also be adjusted upward in any one quarter.

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All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to eliminate such distributions entirely.

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

- First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),
- Second, we cause The Blackstone Group L.P.'s wholly owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreement by such wholly owned subsidiaries, and
- Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis.

Because the wholly owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 17. "Related Party Transactions" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data," the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

In addition, the partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.



### **Unit Repurchases in the Fourth Quarter of 2015**

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended December 31, 2015, no units were repurchased. As of December 31, 2015, the amount remaining under this program available for repurchases was \$335.8 million. See “Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 15. Net Income Per Common Unit” and “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Liquidity Needs” for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

**ITEM 6. SELECTED FINANCIAL DATA**

The consolidated statements of financial condition and income data as of and for the five years ended December 31, 2015 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2015 and 2014 and the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2013, 2012 and 2011 and the Consolidated Statements of Operations for the years ended December 31, 2012 and 2011 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(Dollars in Thousands)</b>				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$2,542,505	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693	\$ 1,811,750
Performance Fees	1,796,666	4,374,262	3,544,057	1,593,052	1,182,660
Investment Income	204,642	534,000	800,308	350,194	213,323
Interest and Dividend Revenue and Other	102,739	79,214	74,818	45,502	44,843
<b>Total Revenues</b>	<b>4,646,552</b>	<b>7,484,728</b>	<b>6,613,168</b>	<b>4,019,441</b>	<b>3,252,576</b>
<b>Expenses</b>					
Compensation and Benefits	2,290,751	3,154,371	3,257,667	2,605,244	2,738,425
General, Administrative and Other	576,103	549,463	474,442	548,738	566,313
Interest Expense	144,522	121,524	107,973	72,870	57,824
Fund Expenses	79,499	30,498	26,658	33,829	25,507
<b>Total Expenses</b>	<b>3,090,875</b>	<b>3,855,856</b>	<b>3,866,740</b>	<b>3,260,681</b>	<b>3,388,069</b>
<b>Other Income</b>					
Reversal of Tax Receivable Agreement Liability	82,707	—	20,469	—	197,816
Net Gains from Fund Investment Activities	176,364	357,854	381,664	256,145	14,935
<b>Total Other Income</b>	<b>259,071</b>	<b>357,854</b>	<b>402,133</b>	<b>256,145</b>	<b>212,751</b>
<b>Income Before Provision for Taxes</b>	<b>1,814,748</b>	<b>3,986,726</b>	<b>3,148,561</b>	<b>1,014,905</b>	<b>77,258</b>
<b>Provision for Taxes</b>	<b>190,398</b>	<b>291,173</b>	<b>255,642</b>	<b>185,023</b>	<b>345,711</b>
<b>Net Income (Loss)</b>	<b>1,624,350</b>	<b>3,695,553</b>	<b>2,892,919</b>	<b>829,882</b>	<b>(268,453)</b>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>					
	11,145	74,794	183,315	103,598	(24,869)
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>					
	219,900	335,070	198,557	99,959	7,953
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>					
	683,516	1,701,100	1,339,845	407,727	(83,234)
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ 709,789</b>	<b>\$ 1,584,589</b>	<b>\$ 1,171,202</b>	<b>\$ 218,598</b>	<b>\$ (168,303)</b>

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Net Income (Loss) Per Common Unit, Basic and Diluted</b>					
Common Units, Basic	\$1.12	\$2.60	\$2.00	\$0.41	\$(0.35)
Common Units, Diluted	\$1.04	\$2.58	\$1.98	\$0.41	\$(0.35)
<b>Distributions Declared Per Common Unit (a)</b>	\$2.90	\$1.92	\$1.18	\$0.52	\$ 0.62

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal year 2015, we declared a final fourth quarter distribution per common unit of \$0.61, which was paid in February 2016.

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$ 22,526,080	\$ 31,497,097	\$ 29,668,959	\$ 28,921,060	\$ 21,903,378
Senior Notes	\$ 2,797,060	\$ 2,136,706	\$ 1,654,659	\$ 1,660,361	\$ 1,045,954
Total Liabilities (a)	\$ 10,295,623	\$ 14,163,550	\$ 15,291,288	\$ 17,706,113	\$ 12,651,092
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 183,459	\$ 2,441,854	\$ 1,950,442	\$ 1,556,185	\$ 1,091,833
Total Partners' Capital	\$ 12,046,998	\$ 14,891,693	\$ 12,427,229	\$ 9,658,762	\$ 8,160,453

- (a) The decrease in total assets, total liabilities and redeemable non-controlling interests in consolidated entities from December 31, 2014 to December 31, 2015 was principally due to the adoption as of January 1, 2015 of new accounting consolidation guidance which resulted in the deconsolidation of certain Blackstone Funds. For more information, see "Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 2. Summary of Significant Accounting Policies — Recent Accounting Developments." The increase in total assets and total liabilities from December 31, 2011 to December 31, 2012 was principally due to the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser and the resultant GAAP required consolidation of certain managed CLO vehicles.

**ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.’s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

**Our Business**

Blackstone is one of the largest independent managers of private capital in the world. Our business is organized into four segments:

- **Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners (“BCP”) funds. Our Private Equity segment also includes Blackstone Tactical Opportunities (“Tactical Opportunities”), our opportunistic investment platform that invests globally across asset classes, industries and geographies, Strategic Partners Fund Solutions (“Strategic Partners”), a secondary private fund of funds business, Blackstone Total Alternatives Solution (“BTAS”), a new multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone’s key illiquid investment strategies through a single commitment, and our capital markets services business (“BXXCM”). Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Tactical Opportunities seeks to capitalize on time-sensitive, complex and dislocated market situations across asset classes, industries and geographies in a broad range of investments, including private and public securities, and instruments, where the underlying exposure may be to equity, debt, and/or real assets. Strategic Partners focuses on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.
- **Real Estate.** Since our start in 1991, we have become a world leader in real estate investing. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment vehicles, a NYSE publicly traded real estate investment trust (“BXMT”) and several core+ real estate funds. We refer to our opportunistic real estate funds as our Blackstone Real Estate Partners (“BREP”) funds, our real estate debt investment vehicles as our Blackstone Real Estate Debt Strategies (“BREDS”) funds and our core+ real estate funds as our Blackstone Property Partners (“BPP”) funds.

Our BREP funds are geographically diversified and target a broad range of “opportunistic” real estate and real estate related investments that are generally undermanaged assets with higher potential for equity appreciation. BREP has made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies.

Our BREDS’ vehicles target real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Our BPP funds are geographically diversified and target substantially stabilized assets generating relatively stable cash flow with a focus on office, multifamily, industrial and retail assets in gateway markets.

- **Hedge Fund Solutions.** Blackstone’s Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (“BAAM”). BAAM is the world’s largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solutions segment also includes investment

platforms that seed new hedge fund talent, purchase ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade long and short public equities.

- **Credit.** Our Credit segment consists principally of GSO Capital Partners LP (“GSO”), a global leader in managing credit-focused products within private and public debt market strategies. GSO’s products include senior credit-focused funds, mezzanine funds, distressed debt funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation (“CLO”) vehicles.

Please see “— Significant Transactions” below for information regarding the previously reported Financial Advisory segment.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from capital markets services. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as “Performance Fees”). The composition of our revenues will vary based on market conditions and the cyclicity of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company’s industry, the overall economy and other market conditions.

### **Business Environment**

Blackstone’s businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

Global equity indices were marked by high volatility during 2015, with the CBOE volatility index reaching its highest levels since 2011. Equity markets began 2015 on strong footing, but suffered declines in the second half of the year, as concerns about slowing growth in China and its implications for global economic growth, falling oil and commodity prices and central bank monetary policy began to weigh heavily on market sentiment. The trends had varying impacts on full-year equity market performance: the S&P 500 ended the year down 0.7%, the MSCI World Index was down 2.7%, the FTSE 100 was down 4.9%, and the Hang Seng down 7.2%; other indices had positive performance, including the NASDAQ up 5.7%, Euro Stoxx 50 up 3.8%, the Nikkei 225 up 9.1%.

Signs of slowing Chinese growth continued to emerge during 2015 and slowing momentum in the economy fed into Chinese investor sentiment. At an official growth rate of 6.9%, China registered its slowest annual GDP growth rate in nearly 25 years. After the Shanghai composite gained more than 50% to reach its all-time high in the first half of the year, it fell more than 30% in the second half of 2015, and ended the year up 9%. In an effort to boost the economy, the People’s Bank of China enacted a number of stimulus measures during 2015, and seemed likely to continue these efforts in 2016. China also allowed the yuan to depreciate against the U.S. Dollar and renewed the possibility it would move towards pegging the yuan against a basket of global currencies to give it greater flexibility to manage its monetary policy.

Oil prices continued their downward trend in 2015, falling more than 30% and ending the year at \$37 a barrel. Resilient production in the U.S. and globally, ample existing supply, and reduced demand from key emerging economies, including China and India, were all contributing factors. U.S. retail gas prices fell to \$2.00 a gallon, a six-year low, but the impact to overall consumer spending remained unclear. Large energy producers reported sharp declines in earnings and spending cutbacks feeding into longer-term concerns for U.S. employment and job growth.

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In addition to oil and gas, prices for other commodities also fell in 2015. The impact of falling commodity prices was felt particularly hard in many commodity-driven emerging market countries in 2015. A number of Latin American currencies depreciated by double-digit percentages against the U.S. dollar, with the Argentine peso and Brazilian real each losing around half their value. Many Latin American equity indices also exhibited sharp declines, including the Brazilian Bovespa, which declined by more than 13% in 2015.

Against the backdrop of growing global investor pessimism and energy sector weakness, the U.S. economy continued to show signs of strength overall in 2015. The U.S. continued to grow real GDP at over 2% and ended the year with 5.0% unemployment, its lowest level since early 2008. Controlling for inflation, consumer spending held steady. In December 2015, the Federal Reserve raised interest rates from a target range of 0 to 0.25% to a range of 0.25% to 0.50% and stated intentions to raise rates at a “gradual” pace going forward while continuing to monitor economic conditions in the U.S. and globally. The rate increase ended a historic second year near-zero interest rate environment.

Concerns about global growth prospects, liquidity, energy exposure and uncertainty on interest rates also weighed on credit markets. High yield spreads widened materially to nearly 750 basis points, an increase of almost 200 basis points, and high-yield issuance fell significantly in 2015. Global equity capital market activity for both IPOs and follow-ons fell significantly year-over-year, driven by declining U.S. and European volumes in the midst of heightened market volatility.

### **Significant Transactions**

On October 1, 2015, Blackstone completed the previously-announced spin-off of the operations that have historically constituted Blackstone’s Financial Advisory segment, other than Blackstone’s capital markets services business. Blackstone’s capital markets services business was retained and was not part of the spin-off. The financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses were spun-off from Blackstone and combined with PJT Capital LP, an independent financial advisory firm founded by Paul J. Taubman, to form an independent, publicly traded company called PJT Partners Inc.

Concurrently with the spin-off, the results attributable to the capital markets services business, BXCM, from its inception in the three months ended March 31, 2013 through the period ended September 30, 2015 were reclassified to the Private Equity segment. For periods after September 30, 2015, the recast Financial Advisory segment has no results of operations. The recast historical Financial Advisory segment includes financial and strategic advisory services, restructuring and reorganization services and fund placement services for alternative investment funds.

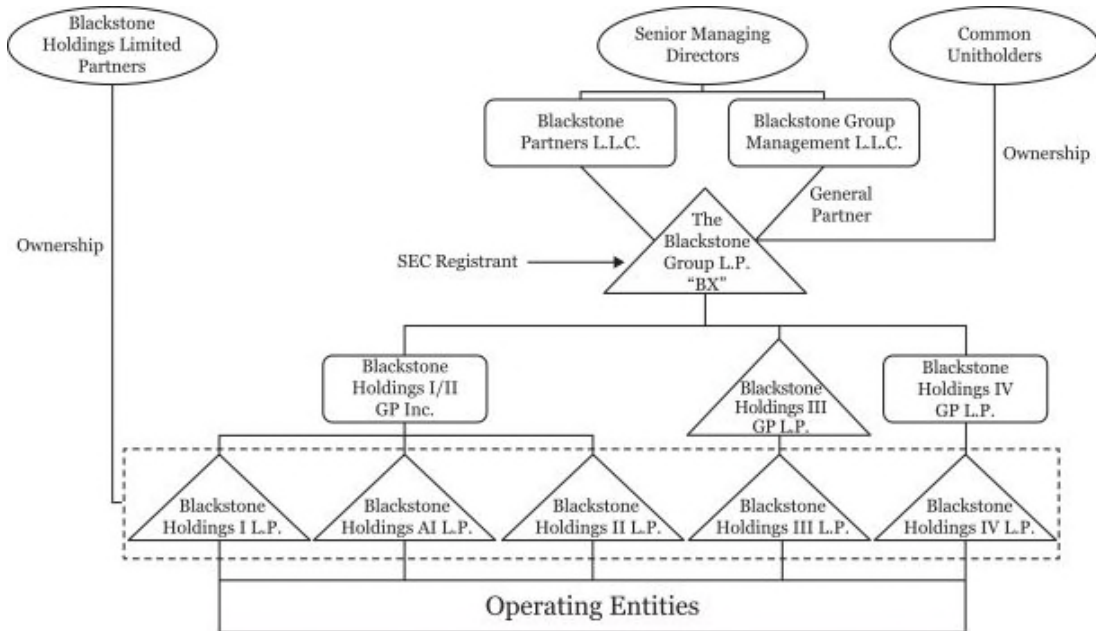
On October 1, 2015, Blackstone formed a new holding partnership, Blackstone Holdings AI L.P., which will hold certain operating entities and operate in a manner similar to the existing Blackstone Holdings Partnerships.

On May 19, 2015, Blackstone issued €300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

## Organizational Structure

The simplified diagram below depicts our organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.



(See “— Significant Transactions” above for additional information on our organizational structure.)

## Key Financial Measures and Indicators

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

### Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business — Incentive Arrangements / Fee Structure” and “— Critical Accounting Policies — Revenue Recognition” for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are



met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

*Other Operating Expenses* — Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses* — The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

### ***Non-Controlling Interests in Consolidated Entities***

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

### ***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### ***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

### ***Income Taxes***

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Consolidated Financial Statements.

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

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it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) a determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or "ISPI," as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Some legislative proposals have provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

The Obama administration has made similar proposals that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposals would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2015 and prior years.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, New York has considered legislation, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules,

regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

Other proposals by members of Congress have contemplated the migration of the United States from a "worldwide" system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. Such proposals include revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us. A variation of this proposal completes a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. Such proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Speaker of the House Paul Ryan has also identified comprehensive tax reform as a priority for the next Congress. Furthermore, recent legislation has proposed audit procedure adjustments that could affect large partnerships like us. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### ***Economic Income***

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income ("ENI") represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its

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most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data”.)

***Fee Related Earnings***

Blackstone uses Fee Related Earnings (“FRE”), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related carry plan costs and (b) income earned from Blackstone’s investments in the Blackstone Funds. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) non-interest operating expenses. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our discussion of FRE.

Effective January 1, 2015 Blackstone redefined FRE to exclude Interest Income and Dividend Revenue, Interest Expense and Investment Income (Loss) — Blackstone Treasury Cash Management Strategies. All previously reported periods have been conformed to the new definition.

***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under GAAP (a “non-GAAP” measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

As a result of the redefinition of FRE noted above, effective January 1, 2015, Distributable Earnings was redefined to exclude Unrealized Investment Income (Loss) — Blackstone Treasury Cash Management Strategies. All previously reported periods have been conformed to the new definition.

***Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization***

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization (“Adjusted EBITDA”), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our calculation of Adjusted EBITDA.

***Summary Walkdown of GAAP to Non-GAAP Financial Metrics***

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the

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measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see “— Liquidity and Capital Resources — Sources of Liquidity.”

(Dollars in Millions)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>GAAP</b>			
	<b>\$ 1,815</b>	<b>\$3,987</b>	<b>\$3,149</b>
	+ Transaction-Related Charges		
	+ Amortization of Intangibles		
	– (Income) Associated with Non-Controlling Interests of Consolidating Entities		
<b>Economic Income “EI”</b>	<b>\$2,178</b>	<b>\$4,544</b>	<b>\$3,596</b>
	– Performance Fee Adjustment		
	– Investment (Income) Loss Adjustment		
	+ Net Interest Loss		
	+ Performance Fee Compensation and Benefit Adjustment		
<b>Fee Related Earnings “FRE”</b>	<b>\$936</b>	<b>\$1,003</b>	<b>\$798</b>
	+ Net Realized Performance Fees		
	+ Realized Investment Income		
	– Net Interest (Loss)		
	– Taxes and Related Payables Including Payable Under Tax Receivable Agreement		
	+ Equity-Based Compensation		
<b>Distributable Earnings “DE”</b>	<b>\$3,844</b>	<b>\$3,064</b>	<b>\$1,869</b>

**Operating Metrics**

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities

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pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,

- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management*. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

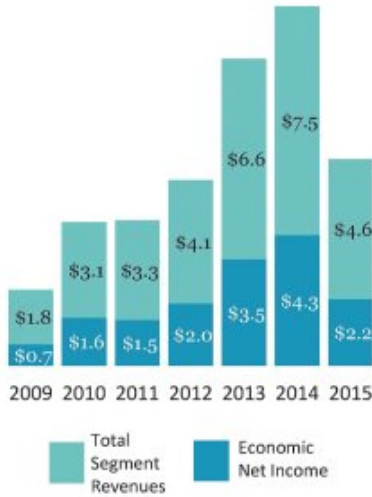
The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.



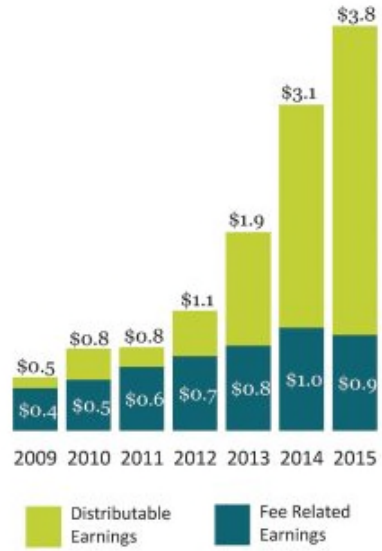
**Financial Highlights**

The following charts highlight certain financial metrics <sup>(a)</sup> :

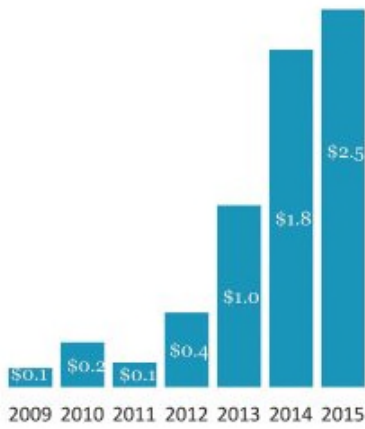
**Total Segment Revenues and ENI**  
(Dollars in Billions)



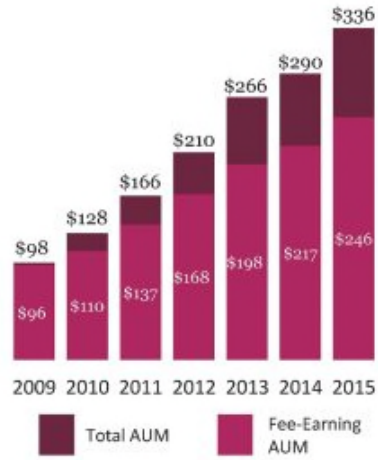
**Distributable Earnings and FRE**  
(Dollars in Billions)



**Net Realized Performance Fees**  
(Dollars in Billions)



**Total and Fee-Earning AUM**  
(Dollars in Billions)



- (a) Total Revenues represents the total segment amounts. Net Realized Performance Fees represents total segment Performance Fees for Realized Carried Interest and Realized Incentive Fees less Performance Fee Compensation for Realized Carried Interest and Realized Incentive Fees. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing. For the components of Distributable Earnings and Fee Related Earnings, see the reconciliation of Fee Related Earnings, Distributable Earnings and Economic Net Income at “— Liquidity and Capital Resources — Sources of Liquidity” below. For Total and Fee-Earning Assets Under Management, see “— Consolidated Results of Operations — Operating Metrics” below.

**Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2015. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “— Segment Analysis” below.

Please see “— Significant Transactions” above for important information regarding the previously reported Financial Advisory segment.

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The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$ 2,542,505	\$2,497,252	\$2,193,985	\$ 45,253	2%	\$ 303,267	14%
<b>Performance Fees</b>							
Realized							
Carried Interest	3,205,290	2,450,082	943,958	755,208	31%	1,506,124	160%
Incentive Fees	193,238	249,005	464,838	(55,767)	-22%	(215,833)	-46%
Unrealized							
Carried Interest	(1,595,174)	1,704,924	2,158,010	(3,300,098)	N/M	(453,086)	-21%
Incentive Fees	(6,688)	(29,749)	(22,749)	23,061	-78%	(7,000)	31%
Total Performance Fees	1,796,666	4,374,262	3,544,057	(2,577,596)	-59%	830,205	23%
<b>Investment Income (Loss)</b>							
Realized							
Carried Interest	555,171	523,735	188,644	31,436	6%	335,091	178%
Unrealized	(350,529)	10,265	611,664	(360,794)	N/M	(601,399)	-98%
Total Investment Income	204,642	534,000	800,308	(329,358)	-62%	(266,308)	-33%
Interest and Dividend Revenue	94,957	69,809	64,511	25,148	36%	5,298	8%
Other	7,782	9,405	10,307	(1,623)	-17%	(902)	-9%
<b>Total Revenues</b>	<b>4,646,552</b>	<b>7,484,728</b>	<b>6,613,168</b>	<b>(2,838,176)</b>	<b>-38%</b>	<b>871,560</b>	<b>13%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	1,726,191	1,868,868	1,844,485	(142,677)	-8%	24,383	1%
<b>Performance Fee Compensation</b>							
Realized							
Carried Interest	793,801	815,643	257,201	(21,842)	-3%	558,442	217%
Incentive Fees	85,945	110,099	200,915	(24,154)	-22%	(90,816)	-45%
Unrealized							
Carried Interest	(312,696)	379,037	966,717	(691,733)	N/M	(587,680)	-61%
Incentive Fees	(2,490)	(19,276)	(11,651)	16,786	-87%	(7,625)	65%
Total Compensation and Benefits	2,290,751	3,154,371	3,257,667	(863,620)	-27%	(103,296)	-3%
General, Administrative and Other	576,103	549,463	474,442	26,640	5%	75,021	16%
Interest Expense	144,522	121,524	107,973	22,998	19%	13,551	13%
Fund Expenses (a)	79,499	30,498	26,658	49,001	161%	3,840	14%
<b>Total Expenses (a)</b>	<b>3,090,875</b>	<b>3,855,856</b>	<b>3,866,740</b>	<b>(764,981)</b>	<b>-20%</b>	<b>(10,884)</b>	<b>-0%</b>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	82,707	—	20,469	82,707	N/M	(20,469)	-100%
Net Gains from Fund Investment Activities	176,364	357,854	381,664	(181,490)	-51%	(23,810)	-6%
<b>Total Other Income</b>	<b>259,071</b>	<b>357,854</b>	<b>402,133</b>	<b>(98,783)</b>	<b>-28%</b>	<b>(44,279)</b>	<b>-11%</b>
<b>Income Before Provision for Taxes (a)</b>	<b>1,814,748</b>	<b>3,986,726</b>	<b>3,148,561</b>	<b>(2,171,978)</b>	<b>-54%</b>	<b>838,165</b>	<b>27%</b>
<b>Provision for Taxes</b>	<b>190,398</b>	<b>291,173</b>	<b>255,642</b>	<b>(100,775)</b>	<b>-35%</b>	<b>35,531</b>	<b>14%</b>
<b>Net Income (a)</b>	<b>1,624,350</b>	<b>3,695,553</b>	<b>2,892,919</b>	<b>(2,071,203)</b>	<b>-56%</b>	<b>802,634</b>	<b>28%</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>							
	11,145	74,794	183,315	(63,649)	-85%	(108,521)	-59%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities (a)</b>							
	219,900	335,070	198,557	(115,170)	-34%	136,513	69%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>							
	683,516	1,701,100	1,339,845	(1,017,584)	-60%	361,255	27%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 709,789</b>	<b>\$1,584,589</b>	<b>\$1,171,202</b>	<b>\$ (874,800)</b>	<b>-55%</b>	<b>\$ 413,387</b>	<b>35%</b>

(a) The amounts reported for the year ended December 31, 2015 reflect an adjustment from those reported in our earnings release dated January 28, 2016.

N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Total Revenues were \$4.6 billion for the year ended December 31, 2015, a decrease of \$2.8 billion, or 38%, compared to \$7.5 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fees and Investment Income of \$2.6 billion and \$329.4 million, respectively.

During 2015, the operating environment for equity and credit investing was characterized by concerns related to macroeconomic developments, including the economic outlook in China and the United States, as well as significantly lower global equity prices, widening high-yield credit spreads and declining energy prices. The decline in equity markets and turbulence in the credit markets adversely impacted our Performance Fees and Investment Income relative to 2014. The lower rate of fund appreciation in 2015 relative to 2014 was due, in significant part, to the declines in our publicly-traded portfolio companies in the second half, particularly in lodging and energy. To a lesser extent, the results were impacted by certain unrealized markdowns in energy and credit and currency translation effects on some of our non-U.S. holdings. Growth in global gross domestic product slowed in 2015 and resulted in a slowdown of certain sectors and regions in our global portfolio. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our fund investments, our revenues would likely be negatively impacted. See “— Segment Analysis” below for further information about material trends and uncertainties that may impact our results of operations.

Performance Fees, which are determined on a fund by fund basis, were \$1.8 billion for the year ended December 31, 2015, a decrease of \$2.6 billion compared to \$4.4 billion for the year ended December 31, 2014. The decrease in Performance Fees was primarily due to decreases in our Private Equity, Real Estate, and Credit segments of \$1.2 billion, \$1.0 billion and \$270.4 million, respectively. The decrease in our Private Equity segment was principally due to lower net returns in our corporate private equity portfolio, despite overall solid net performance. Performance Fees in our Real Estate segment decreased due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone’s contributed Real Estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6%, offset by public portfolio depreciation of 8.6%, particularly in lodging. Performance Fees decreased in our Credit segment due to our energy investments, overall declines in the credit market, underperformance in certain event-driven assets and technical pressure caused by year end selling.

Investment Income was \$204.6 million for the year ended December 31, 2015, a decrease of \$329.4 million compared to \$534.0 million for the year ended December 31, 2014. The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$246.5 million and \$105.5 million, respectively. The decrease in our Real Estate segment was primarily due to a year over year net depreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds. The decrease in our Private Equity segment was driven by our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio and certain investment markdowns in energy.

*Expenses*

Expenses were \$3.1 billion for the year ended December 31, 2015, a decrease of \$765.0 million compared to \$3.9 billion for the year ended December 31, 2014. The decrease was primarily attributable to decreases in Performance Fee Compensation and Compensation of \$720.9 million and \$142.7 million, respectively, partially offset by increases of \$49.0 million and \$23.0 million in Fund Expenses and Interest Expense, respectively. Performance Fee Compensation is derived from Performance Fee Revenue. The decrease in Performance Fee Compensation was due to the decrease in Performance Fee Revenue. The decrease in Compensation was primarily due to lower equity-based compensation expense related to awards granted in connection with Blackstone’s IPO,

which were fully vested and expensed as of June 30, 2015 and an overall decrease in headcount driven by the October 1, 2015 spin-off of Blackstone's Financial Advisory business. The decrease was partially offset by an increase in equity-based amortization charges due to the 2014 change in terms of Deferred Compensation Plan awards which require future service and are therefore expensed over the service period. The increase in General, Administrative and Other was primarily due to transactional charges associated with the spin-off, non-recurring costs related to the SEC settlement, occupancy increases and business development costs. Due to the spin-off, partially offsetting these increases was a reduction in expenses directly incurred by the Advisory business. The \$23.0 million increase in interest expense was primarily related to Blackstone's issuance of senior notes in the second quarter of 2015. The increase in Fund Expenses primarily occurred in our Credit segment, where it was attributable to newly launched CLOs and an increase in other expenses.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Total Revenues were \$7.5 billion for the year ended December 31, 2014, an increase of \$871.6 million, or 13%, compared to \$6.6 billion for the year ended December 31, 2013. The increase was primarily attributable to increases in Performance Fees and Management and Advisory Fees, Net of \$830.2 million and \$303.3 million, respectively. These increases were partially offset by a decrease in Investment Income of \$266.3 million.

Performance Fees, which are determined on a fund by fund basis, were \$4.4 billion for the year ended December 31, 2014, an increase of \$830.2 million compared to \$3.5 billion for the year ended December 31, 2013. The increase in Performance Fees was primarily driven by increases in our Private Equity segment of \$1.2 billion, principally due to performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively, with BCP V crossing its preferred return threshold during the period. Performance Fees in our Real Estate segment decreased by \$137.8 million to \$2.0 billion due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, was driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion). Performance Fees decreased by \$75.8 million in our Hedge Fund Solutions segment due to lower returns. Performance Fees decreased by \$199.9 million in our Credit segment due to challenging market conditions for lower rated credits in our hedge fund strategies business and a lower rate of appreciation in our rescue lending business.

Total Management and Advisory Fees, Net were \$2.5 billion for the year ended December 31, 2014, an increase of \$303.3 million compared to \$2.2 billion for the year ended December 31, 2013. The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions segment of \$72.0 million, our Private Equity segment of \$71.9 million, our Real Estate segment of \$63.6 million, and our Credit segment of \$63.8 million. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Private Equity segment was primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. The increase in our Real Estate segment was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio. The increase in our Credit segment was driven by the incremental capital raised for our hedge fund strategies business and business development companies.

Investment Income was \$534.0 million for the year ended December 31, 2014, a decrease of \$266.3 million compared to \$800.3 million for the year ended December 31, 2013. The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$152.4 million and \$71.0 million, respectively. The decrease in our Real Estate segment was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds. The decrease in our Private Equity segment was driven by our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year but were slightly lower than the returns generated in the full year 2013.

*Expenses*

Expenses were \$3.9 billion for the year ended December 31, 2014, a decrease of \$10.9 million compared to \$3.9 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease in Performance Fee Compensation of \$127.7 million, partially offset by increases of \$75.0 million, \$24.4 million and \$13.6 million, respectively, in General, Administrative and Other, Compensation and Interest Expense. The decrease in Performance Fee Compensation was due to lower compensation ratios on Performance Fee Revenue and pre-IPO deals. A significant amount of the Performance Fees granted to employees on deals closed prior to the IPO were exchanged for units of Blackstone at the time of the IPO. Therefore, for these pre-IPO deals, Blackstone retains significantly more of the Performance Fees that it earns than it does for deals closed after the IPO. This results in lower Performance Fee Compensation for pre-IPO deals. The \$75.0 million increase in General, Administrative and Other was primarily due to spin-off transaction related charges, professional fees, occupancy increases and business development costs. The \$24.4 million increase in Compensation was due to an overall increase in revenue, on which compensation is based, offset by lower equity-based amortization charges on our transaction-related awards and a reduction of compensation expense due to a change in the terms of Deferred Compensation Plan awards which require future service and are therefore no longer expensed immediately. This resulted in \$102.6 million less Compensation recorded in the fourth quarter of 2014 than would have been recorded under the prior plan. The \$13.6 million increase in Interest Expense was primarily related to Blackstone's issuance of senior notes during the second quarter of 2014.

*Other Income*

Other Income — Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income was eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

Other Income was \$259.1 million for the year ended December 31, 2015, a decrease of \$98.8 million compared to \$357.9 million for the year ended December 31, 2014. The decrease was due to a decrease in Net Gains from Fund Investment Activities of \$181.5 million, partially offset by an increase due to a Reversal of Tax Receivable Agreement Liability of \$82.7 million.

Other Income — Net Gains from Fund Investment Activities was \$176.4 million for the year ended December 31, 2015, a decrease of \$181.5 million compared to \$357.9 million for the year ended December 31, 2014. This decrease was primarily comprised of decreases in our Real Estate, Hedge Fund Solutions and Private Equity segments of \$148.3 million, \$73.8 million and \$62.0 million, respectively, partially offset by an increase of \$102.7 million in our Credit segment. The Real Estate decrease was primarily the result of the deconsolidation of certain funds as well as a year over year net decreases in the appreciation of investments across our funds. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance and the deconsolidation of a number of funds. The decrease in our Private Equity segment was primarily due to the lower unrealized gains compared to the same period in 2014. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2015, there was a Reversal of Tax Receivable Agreement Liability resulting in an increase of \$82.7 million.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

Other Income was \$357.9 million for the year ended December 31, 2014, a decrease of \$44.3 million compared to \$402.1 million for the year ended December 31, 2013. The decrease was comprised of decreases in Net Gains from Fund Investment Activities of \$23.8 million and Reversal of Tax Receivable Agreement Liability of \$20.5 million.

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Other Income — Net Gains from Fund Investment Activities was \$357.9 million for the year ended December 31, 2014, a decrease of \$23.8 million compared to \$381.7 million for the year ended December 31, 2013. This decrease was primarily comprised of decreases in our Hedge Fund Solutions and Private Equity segments of \$99.4 million and \$25.0 million, respectively, partially offset by increases of \$40.7 million and \$39.4 million in our Real Estate and Credit segments, respectively. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance from certain of our consolidated funds. The Real Estate increase was driven by valuation gains on investments across our global Real Estate funds. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2014, there was no Reversal of Tax Receivable Agreement Liability resulting in a decrease of \$20.5 million.

*Provision for Taxes*

Blackstone's Provision for Taxes for the years ended December 31, 2015, 2014 and 2013 was \$190.4 million, \$291.2 million and \$255.6 million, respectively. This resulted in an effective tax rate of 10.5%, 7.3% and 8.1%, respectively, based on our Income Before Provision for Taxes of \$1.8 billion, \$4.0 billion and \$3.1 billion, respectively.

The primary factor that contributed to the 3.2% increase in the effective tax rate for the year ended December 31, 2015 compared to the year ended December 31, 2014 is that pre-tax book income includes \$1.2 billion for 2015 and \$3.3 billion for 2014 of pre-tax income that is passed through to common unitholders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. This resulted in a 6.4% increase to the effective tax rate in 2015 compared to 2014, which is partially offset by a 3.5% decrease to the effective tax rate when comparing 2015 to 2014 resulting from increased interest expense.

The primary factor that contributed to the 0.8% decrease in the effective tax rate for the year ended December 31, 2014 compared to the year ended December 31, 2013 is the amount that book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although this amount did not change significantly in 2014 compared to 2013, pre-tax book income was significantly higher in 2014 than 2013 resulting in a decrease to the effective rate of 0.5% when comparing 2014 to 2013.

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 14. "Income Taxes" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

*Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income — Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities and the Reversal of Tax Receivable Agreement Liability, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

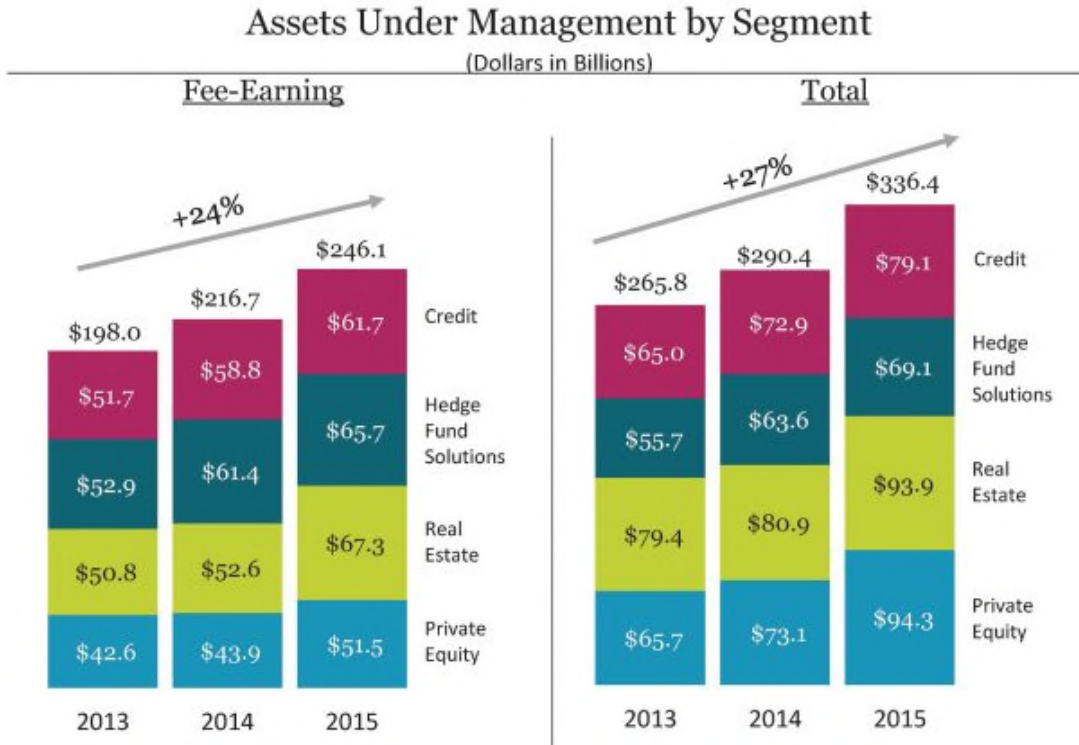
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For the years ended December 31, 2015, 2014 and 2013, the net income before taxes allocated to Blackstone Holdings was 47.0%, 47.9% and 49.3%, respectively. The decreases of 0.9% and 1.4% were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

The Other Income — Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the years ended December 31, 2015, 2014 and 2013. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see “— Key Financial Measures and Indicators — Operating Metrics — Assets Under Management and Fee-Earning Assets Under Management.”



Note: Totals may not add due to rounding.



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	Year Ended December 31,									
	2015					2014				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
	(Dollars in Thousands)									
Fee-Earning Assets Under Management										
Balance, Beginning of Period	\$43,890,167	\$52,563,068	\$ 61,417,558	\$58,821,006	\$216,691,799	\$42,600,515	\$50,792,803	\$ 52,865,837	\$51,722,584	\$197,981,739
Inflows, including Commitments (a)	13,882,257	27,698,203	9,667,274	17,310,414	68,558,148	6,757,450	11,536,435	12,021,209	19,845,686	50,160,780
Outflows, including Distributions (b)	(1,395,020)	(4,165,520)	(5,430,094)	(5,711,573)	(16,702,207)	(1,124,355)	(295,067)	(5,362,968)	(3,458,712)	(10,241,102)
Realizations (c)	<u>(5,106,650)</u>	<u>(8,513,771)</u>	<u>(516,619)</u>	<u>(6,318,060)</u>	<u>(20,455,100)</u>	<u>(4,733,564)</u>	<u>(8,719,534)</u>	<u>(312,486)</u>	<u>(7,897,115)</u>	<u>(21,662,699)</u>
Net Inflows	7,380,587	15,018,912	3,720,561	5,280,781	31,400,841	899,531	2,521,834	6,345,755	8,489,859	18,256,979
Market Appreciation (Depreciation) (d) (f)	<u>180,442</u>	<u>(236,623)</u>	<u>527,320</u>	<u>(2,417,407)</u>	<u>(1,946,268)</u>	<u>390,121</u>	<u>(751,569)</u>	<u>2,205,966</u>	<u>(1,391,437)</u>	<u>453,081</u>
Balance, End of Period (e)	<u>\$51,451,196</u>	<u>\$67,345,357</u>	<u>\$ 65,665,439</u>	<u>\$61,684,380</u>	<u>\$246,146,372</u>	<u>\$43,890,167</u>	<u>\$52,563,068</u>	<u>\$ 61,417,558</u>	<u>\$58,821,006</u>	<u>\$216,691,799</u>
Increase	\$ 7,561,029	\$14,782,289	\$ 4,247,881	\$ 2,863,374	\$ 29,454,573	\$ 1,289,652	\$ 1,770,265	\$ 8,551,721	\$ 7,098,422	\$ 18,710,060
Increase	17%	28%	7%	5%	14%	3%	3%	16%	14%	9%

	Year Ended December 31,				
	2013				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
	(Dollars in Thousands)				
Fee-Earning Assets Under Management					
Balance, Beginning of Period	\$37,050,167	\$41,931,339	\$ 43,478,791	\$45,420,143	\$167,880,440
Inflows, including Commitments (a)	9,884,340	13,835,625	9,098,002	15,588,769	48,406,736
Outflows, including Distributions (b)	(392,882)	(1,329,763)	(3,626,636)	(1,793,738)	(7,143,019)
Realizations (c)	<u>(4,025,167)</u>	<u>(3,649,494)</u>	<u>(348,126)</u>	<u>(9,475,232)</u>	<u>(17,498,019)</u>
Net Inflows	5,466,291	8,856,368	5,123,240	4,319,799	23,765,698
Market Appreciation (d)(f)	<u>84,057</u>	<u>5,096</u>	<u>4,263,806</u>	<u>1,982,642</u>	<u>6,335,601</u>
Balance, End of Period (e)	<u>\$42,600,515</u>	<u>\$50,792,803</u>	<u>\$ 52,865,837</u>	<u>\$51,722,584</u>	<u>\$197,981,739</u>
Increase	\$ 5,550,348	\$ 8,861,464	\$ 9,387,046	\$ 6,302,441	\$ 30,101,299
Increase	15%	21%	22%	14%	18%

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	Year Ended December 31,									
	2015					2014				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
	(Dollars in Thousands)									
<b>Total Assets Under Management</b>										
Balance, Beginning of Period	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Inflows, including Commitments (a)	30,034,911	29,473,697	11,040,950	23,035,118	93,584,676	13,677,363	11,080,384	11,428,764	21,072,695	57,259,206
Outflows, including										
Distributions (b)	(406,955)	(342,233)	(5,559,483)	(6,372,790)	(12,681,461)	(1,624,064)	(896,394)	(5,430,780)	(3,763,200)	(11,714,438)
Realizations (c)	(13,493,163)	(21,016,540)	(554,584)	(7,605,824)	(42,670,111)	(15,379,066)	(20,389,808)	(416,882)	(9,301,444)	(45,487,200)
Net Inflows (Outflows)	16,134,793	8,114,924	4,926,883	9,056,504	38,233,104	(3,325,767)	(10,205,818)	5,581,102	8,008,051	57,568
Market Appreciation (Depreciation) (d)(g)	5,072,029	4,939,713	592,872	(2,834,212)	7,770,402	10,723,988	11,658,217	2,347,105	(163,439)	24,565,871
Balance, End of Period (e)	\$ 94,280,074	\$ 93,917,824	\$ 69,105,425	\$ 79,081,252	\$ 336,384,575	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069
Increase	\$ 21,206,822	\$ 13,054,637	\$ 5,519,755	\$ 6,222,292	\$ 46,003,506	\$ 7,398,221	\$ 1,452,399	\$ 7,928,207	\$ 7,844,612	\$ 24,623,439
Increase	29%	16%	9%	9%	16%	11%	2%	14%	12%	9%

	Year Ended December 31,				
	2013				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit (h)	Total
	(Dollars in Thousands)				
<b>Total Assets Under Management</b>					
Balance, Beginning of Period	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Inflows, including Commitments (a)	14,420,278	17,686,592	9,337,644	19,040,769	60,485,283
Outflows, including					
Distributions (b)	(653,357)	(1,049,598)	(3,854,587)	(2,519,238)	(8,076,780)
Realizations (c)	(9,584,276)	(8,298,220)	(447,960)	(11,799,676)	(30,130,132)
Net Inflows	4,182,645	8,338,774	5,035,097	4,721,855	22,278,371
Market Appreciation (d)(g)	10,489,413	14,376,369	4,529,861	3,863,656	33,259,299
Balance, End of Period (e)	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Increase	\$ 14,672,058	\$ 22,715,143	\$ 9,564,958	\$ 8,585,511	\$ 55,537,670
Increase	29%	40%	21%	15%	26%

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments).
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.

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- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2015 included \$94.6 million and \$115.8 million, respectively, from a joint venture in which we are the minority interest holder.
- (f) For the year ended December 31, 2015, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was \$(17.0) million, \$(642.4) million, \$(999.2) million and \$(1.7) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(11.8) million, \$(957.4) million, \$(1.3) billion and \$(2.3) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2013, such impact was \$5.7 million, \$188.5 million, \$470.0 million and \$664.2 million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (g) For the year ended December 31, 2015, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was \$(508.1) million, \$(1.9) billion, \$(1.1) billion and \$(3.5) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2014, such impact was \$(357.1) million, \$(2.0) billion, \$(1.5) billion and \$(3.8) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the year ended December 31, 2013, such impact was \$(249.2) million, \$69.3 million, \$469.9 million and \$290.0 million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (h) On December 31, 2015, the Credit segment refined the classification of required dividend payments from its business development companies and certain long only investment vehicles for purposes of reporting the roll forward components of Fee-Earning and Total Assets Under Management. Historically, these amounts had been reported as Outflows and they are now reported as Realizations. Furthermore, dividends had previously been reported net of reinvestments but now the reinvestments are reported as Inflows. All historical periods have been recast to conform to the new definition.

### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$246.1 billion at December 31, 2015, an increase of \$29.5 billion, or 14%, compared to \$216.7 billion at December 31, 2014. The net increase was due to:

- Inflows of \$68.6 billion related to:
  - \$27.7 billion in our Real Estate segment primarily related to \$15.6 billion raised for BREP VIII, \$7.2 billion raised/invested for BPP, \$1.5 billion invested for BREP VII post its investment period, \$1.1 billion invested for BREDS II and \$1.0 billion raised for BXMT,
  - \$17.3 billion in our Credit segment driven by \$4.8 billion raised in CLO launches, \$4.8 billion raised in our business development companies (“BDCs”), \$3.6 billion raised in our drawdown funds and \$2.0 billion raised in our Hedge Fund Strategies,
  - \$13.9 billion in our Private Equity segment primarily due to \$5.0 billion raised in our Tactical Opportunities platform, \$4.5 billion raised for Blackstone Energy Partners II, \$1.0 billion raised from Strategic Partners and \$850.3 million of inflows from BTAS, and
  - \$9.7 billion in our Hedge Fund Solutions segment mainly related to growth in its customized, commingled, and individual investor solutions products, and additional closings on the general partner interests vehicle.

Offsetting these increases were:

- Realizations of \$20.5 billion primarily driven by:
  - \$8.5 billion in our Real Estate segment primarily due to realizations of \$4.4 billion in BREP global and European opportunistic funds, \$2.6 billion in BREDS and \$769.2 million in BREP co-investment,
  - \$6.3 billion in our Credit segment primarily due to \$3.8 billion capital returned to CLO investors from CLOs that are post their re-investment periods, \$1.4 billion capital returned to investors in drawdown funds and \$776.3 million capital returned to investors in BDC funds, and

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- \$5.1 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from BCP V and our Strategic Partners fund of funds.
- Outflows of \$16.7 billion primarily attributable to:
  - \$5.7 billion in our Credit segment, which includes \$3.6 billion of redemptions due to investors' general liquidity needs as well as their paring back in credit investments,
  - \$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners and certain strategic shifts in their programs,
  - \$4.2 billion in our Real Estate segment primarily due to \$4.0 billion of uninvested reserves at the close of BREP VII's investment period, and
  - \$1.4 billion in our Private Equity segment primarily from the end of the investment periods for BEP and Tactical Opportunities initial platform of separately managed accounts as well as our outflows in our Strategic Partners fund of funds.
- Market depreciation of \$1.9 billion principally due to solid returns from the BAAM Principal Solutions ("BPS") Composite funds in our Hedge Fund Solutions segment offset by \$2.4 billion in market depreciation in our Credit segment. The \$2.4 billion in market depreciation in our Credit segment, which includes \$999.2 million of foreign exchange depreciation, is primarily driven by \$1.3 billion in market depreciation from our U.S. and Europe CLOs, \$613.4 million in market depreciation from our hedge fund strategies and \$518.7 million in market depreciation from our BDCs.

BAAM had net inflows of \$1.3 billion from January 1 through February 1, 2016.

Fee-Earning Assets Under Management were \$216.7 billion at December 31, 2014, an increase of \$18.7 billion, or 9%, compared to \$198.0 billion at December 31, 2013. The net increase was due to:

- Inflows of \$50.2 billion related to:
  - \$19.8 billion in our Credit segment driven by \$5.5 billion raised in CLO launches, \$5.2 billion raised in our business development companies ("BDCs"), \$3.9 billion raised in hedge fund strategies and \$2.4 billion of capital deployed in our mezzanine and rescue lending funds,
  - \$12.0 billion in our Hedge Fund Solutions segment mainly related to growth in its customized and commingled products and co-investment platform, additional closings on the general partner interests vehicle and the launch of BAAM's second alternative investment-focused mutual fund and first liquid alternative UCITS structure fund,
  - \$11.5 billion in our Real Estate segment primarily related to \$3.1 billion capital raised and/or invested for BREDS, \$3.0 billion raised for BREP Europe IV, \$1.8 billion raised for BREP Asia, \$874.0 million raised for BPP and \$779.5 million raised for BXMT, and
  - \$6.8 billion in our Private Equity segment primarily due to fundraising related to Strategic Partners' sixth fund as well as additional capital raised for our Tactical Opportunities investment vehicles.
- Market appreciation of \$453.1 million principally due to solid returns from the BPS Composite funds in our Hedge Fund Solutions segment offset by \$1.4 billion in market depreciation for U.S. and European CLOs in the Credit segment principally due to foreign exchange depreciation and \$751.6 million in our Real Estate segment principally due to foreign exchange depreciation.

Offsetting these increases were:

- Realizations of \$21.7 billion primarily driven by:
  - \$8.7 billion in our Real Estate segment primarily due to realizations of \$2.7 billion from BREP VI, \$2.5 billion from BREDS, \$1.5 billion from BREP co-investment, \$1.0 billion from BREP V and \$565.3 million from BREP Europe III,

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- \$7.9 billion in our Credit segment primarily due to \$5.2 billion returned to CLO investors from CLOs that are post their reinvestment periods and \$1.8 billion returned across the Mezzanine and Rescue Lending funds, and
- \$4.7 billion in our Private Equity segment primarily resulting from \$3.3 billion return of capital from our BCP V fund including public share sales of Hilton, Pinnacle, and Nielsen and strategic sales in Apria, United Biscuits and Mivisa, and \$1.0 billion of fee earning realizations in Strategic Partners.
- Outflows of \$10.2 billion primarily attributable to:
  - \$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners and certain strategic shifts in their programs, and
  - \$3.5 billion in our Credit segment primarily from our long-only platform, hedge fund strategies and business development companies.

*Total Assets Under Management*

Total Assets Under Management were \$336.4 billion at December 31, 2015, an increase of \$46.0 billion, or 16%, compared to \$290.4 billion at December 31, 2014. The net increase was due to:

- Inflows of \$93.6 billion primarily related to:
  - \$30.0 billion in our Private Equity segment primarily related to \$18.0 billion raised for the seventh private equity fund (the corresponding Fee-Earning Assets Under Management Inflow will occur when the investment period for this fund commences), \$7.0 billion raised for Tactical Opportunities, \$2.2 billion raised from Strategic Partners and \$714.2 million of inflows from BTAS,
  - \$29.5 billion in our Real Estate segment attributable to \$16.0 billion raised for BREP VIII, \$6.9 billion raised for BPP, \$1.3 billion raised during the initial closing for the third real estate debt strategies fund, \$1.0 billion raised for BXMT, and \$740.3 million raised for BREP co-investment,
  - \$23.0 billion in our Credit segment primarily due to \$5.0 billion raised from CLO launches, \$4.8 billion raised for BDCs, \$3.9 billion raised in our energy focused products, \$3.6 billion raised in European senior debt strategies, \$2.5 billion raised in our other long only funds and \$2.0 billion raised in hedge fund strategies, and
  - \$11.0 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management.
- Market appreciation of \$7.8 billion due to:
  - \$5.1 billion appreciation in our Private Equity segment driven by significant returns in funds across the segment,
  - \$4.9 billion net appreciation in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%, and by \$1.9 billion of foreign exchange depreciation, and
  - \$2.8 billion depreciation in our Credit segment due to reasons noted above in Fee-Earning Asset Under Management, including \$1.1 billion attributable to foreign currency depreciation.

Offsetting these increases were:

- Realizations of \$42.7 billion driven by:
  - \$21.0 billion in our Real Estate segment due to realizations across the segment with 78% of realizations generated from the BREP Global and European opportunistic platform, including co-investment,

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- \$13.5 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund and Strategic Partners fund of funds, and
- \$7.6 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds.
- Outflows of \$12.7 billion primarily attributable to:
  - \$6.4 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management, and
  - \$5.6 billion in our Hedge Fund Solutions segment due to reasons noted above in Fee-Earning Assets Under Management.

Total Assets Under Management were \$290.4 billion at December 31, 2014, an increase of \$24.6 billion, or 9%, compared to \$265.8 billion at December 31, 2013. The net increase was due to:

- Inflows of \$57.3 billion primarily related to:
  - \$21.1 billion in our Credit segment due to the reasons noted above in Fee-Earning Assets Under Management,
  - \$13.7 billion in our Private Equity segment due primarily to capital raised for Strategic Partners' sixth fund of funds, our second energy focused fund and additional capital raised for our Tactical Opportunities investment vehicles,
  - \$11.4 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management, and
  - \$11.1 billion in our Real Estate segment attributable to \$3.1 billion raised for BREP Europe IV, \$2.3 billion raised for BPP, \$1.8 billion raised for BREP Asia, \$1.2 billion raised for BREDS and \$779.5 million raised for BXMT.
- Market appreciation of \$24.6 billion due to:
  - \$11.7 billion in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion),
  - \$10.7 billion in our Private Equity segment driven by significant returns in funds across the segment, primarily in BCP V and BCP VI, and
  - \$2.3 billion in our Hedge Fund Solutions segment driven by the BPS Composite up 7.0% gross (5.9% net).

Offsetting these increases were:

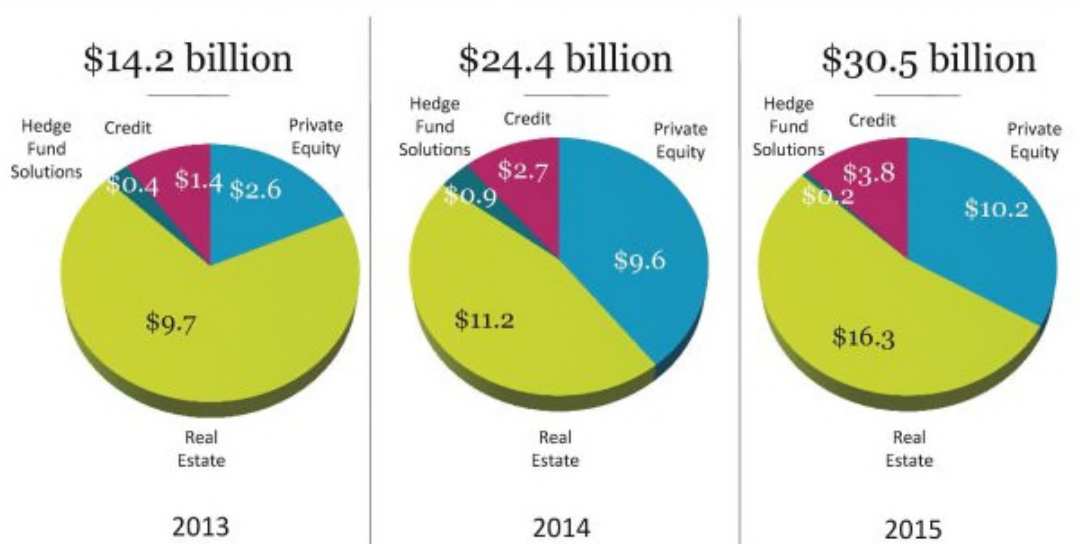
- Realizations of \$45.5 billion driven by:
  - \$20.4 billion in our Real Estate segment due to realizations of \$7.3 billion in BREP VI, \$3.6 billion in BREP co-investment, \$2.4 billion in BREP V, \$2.1 billion in BREP VII, \$2.0 billion in BREDS and \$1.4 billion in BREP Europe III,
  - \$15.4 billion in our Private Equity segment due to execution on monetization opportunities across our corporate private equity portfolio, and
  - \$9.3 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds and BDCs.
- Outflows of \$11.7 billion primarily attributable to:
  - \$5.4 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners and certain strategic shifts in their programs.
  - \$3.8 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management.

*Limited Partner Capital Invested*

The following presents the limited partner capital invested during the respective periods:

## Limited Partner Capital Invested

(Dollars in Billions, Except Title)

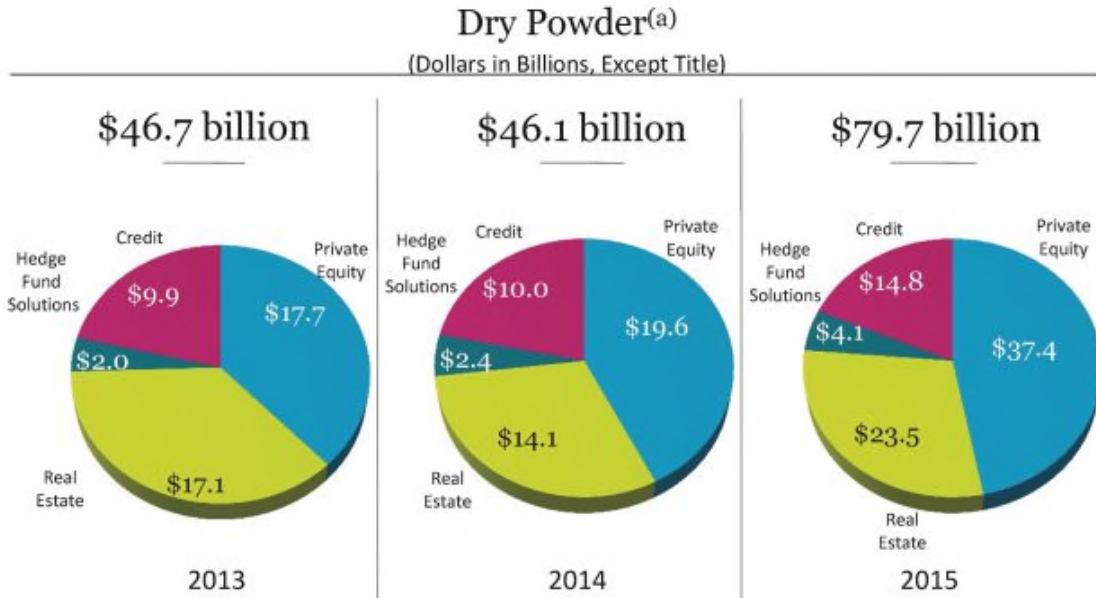


Note: Totals in graph may not add due to rounding.

	Year Ended December 31,			2014 vs. 2013		2015 vs. 2014	
	2013	2014	2015	\$	%	\$	%
<b>Limited Partner Capital Invested</b>							
Private Equity	\$ 2,568,582	\$ 9,623,273	\$10,219,178	\$ 7,054,691	275%	\$ 595,905	6%
Real Estate	9,741,277	11,235,142	16,259,362	1,493,865	15%	5,024,220	45%
Hedge Fund Solutions	431,275	854,128	243,241	422,853	98%	(610,887)	-72%
Credit	1,438,570	2,656,958	3,783,265	1,218,388	85%	1,126,307	42%
<b>Total</b>	<b>\$14,179,704</b>	<b>\$24,369,501</b>	<b>\$30,505,046</b>	<b>\$10,189,797</b>	<b>72%</b>	<b>\$6,135,545</b>	<b>25%</b>

Limited Partner Capital Invested was \$30.5 billion for the year ended December 31, 2015, an increase of \$6.1 billion, or 25%, from \$24.4 billion for the year ended December 31, 2014. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed greater capital in 2015 than in 2014 as we found strong opportunities that fit within our investment philosophy for our corporate private equity funds as well as increased capital deployment opportunities within our Tactical Opportunities and Strategic Partners businesses. Our Real Estate segment deployed \$16.3 billion of capital in 2015, a 45% increase from 2014 primarily due to a significant increase in investment activity in BPP. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the year ended December 31, 2015, was higher compared to the year ended December 31, 2014 primarily due to a greater number of investment opportunities in our carry funds that fit within our investment philosophy, notably within the energy sector and European direct lending space.

The following presents the committed undrawn capital available for investment (“dry powder”) as of December 31, 2015, 2014 and 2013:



Note: Totals may not add due to rounding. Amounts are as of December 31 of each year.

(a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.



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*Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2015 and 2014. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 18. “Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing. The net accrued performance fee as of each reporting date is principally unrealized carried interest and incentive fees which, if realized, can be a significant component of Distributable Earnings.

	December 31,	
	2015	2014
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 144	\$ 282
BCP V Carried Interest	288	1,050
BCP VI Carried Interest	359	233
BEP Carried Interest	48	63
Tactical Opportunities Carried Interest	52	24
BTAS Carried Interest	3	—
Strategic Partners Carried Interest	36	4
Other Carried Interest	1	1
Total Private Equity (a)	<u>931</u>	<u>1,657</u>
<b>Real Estate</b>		
BREP IV Carried Interest	20	18
BREP V Carried Interest	497	602
BREP VI Carried Interest	628	1,113
BREP VII Carried Interest	608	605
BREP VIII Carried Interest	7	—
BREP Europe III Carried Interest	186	183
BREP Europe IV Carried Interest	121	37
BREP Asia Carried Interest	54	17
BPP Carried Interest	28	14
BREDS Carried Interest	12	14
BPP Incentive Fees	12	—
BREDS Incentive Fees	6	2
Asia Platform Incentive Fees	7	7
Total Real Estate (a)	<u>2,186</u>	<u>2,612</u>
<b>Hedge Fund Solutions</b>		
Incentive Fees	38	76
Total Hedge Fund Solutions	<u>38</u>	<u>76</u>
<b>Credit</b>		
Carried Interest	77	175
Incentive Fees	19	32
Total Credit	<u>96</u>	<u>207</u>
<b>Total Blackstone</b>		
Carried Interest	3,169	4,435
Incentive Fees	82	117
Net Accrued Performance Fees	<u>\$3,251</u>	<u>\$4,552</u>

(a) Private Equity and Real Estate include Co-Investments.

*Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:

**Performance Fee Eligible AUM<sup>(a)</sup>**

(Dollars in Billions, Except Title)



Note: Totals may not add due to rounding. Amounts are as of December 31.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

*Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2015:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$ —	\$ —	N/A	—	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100	—	—	N/A	—	3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422	—	—	N/A	—	9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	155,610	1.6x	71%	2,808,140	1.4x	2,963,750	1.4x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	220,676	2,148,444	1.3x	30%	18,896,847	3.2x	21,045,291	2.8x	43%	36%
BCP V (Dec 2005 / Jan 2011)	21,025,483	1,261,713	11,213,593	1.5x	73%	25,866,084	2.0x	37,079,677	1.8x	11%	8%
BCP VI (Jan 2011 / Jan 2017)	15,186,676	3,437,279	14,556,872	1.3x	25%	2,010,281	1.9x	16,567,153	1.4x	51%	12%
BEP I (Aug 2011 / Feb 2015)	2,439,096	208,049	2,694,285	1.3x	21%	539,484	2.0x	3,233,769	1.4x	57%	16%
BEP II (Feb 2015 / Feb 2021)	4,951,351	4,940,725	10,627	1.0x	—	—	N/A	10,627	1.0x	N/A	N/M
BCP VII (TBD)	18,000,000	18,000,000	—	N/A	—	—	N/A	—	N/A	N/A	N/A
Total Corporate Private Equity	76,700,721	28,267,740	30,779,431	1.4x	43%	64,304,081	2.3x	95,083,512	1.9x	19%	16%
Tactical Opportunities	13,047,121	6,928,783	6,594,346	1.1x	5%	1,272,843	1.5x	7,867,189	1.2x	32%	12%
Strategic Partners I-V and Co-Investment	12,001,300	2,198,999	4,401,532	2.6x	—	12,857,614	1.3x	17,259,146	1.5x	N/A	14%
Strategic Partners VI	6,701,331	2,116,999	3,282,072	1.2x	—	334,323	0.2x	3,616,395	0.8x	N/A	63%
Other Funds and Co-Investment (d)	3,013,278	1,308,318	1,395,181	1.1x	35%	227,280	1.3x	1,622,461	1.1x	N/A	N/M
Total Private Equity	\$111,463,751	\$40,820,839	\$46,452,562	1.4x	30%	\$78,996,141	1.9x	\$125,448,703	1.7x	19%	15%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$ —	\$ —	N/A	—	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	—	—	N/A	—	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	—	—	N/A	—	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	—	—	N/A	—	3,336,402	2.4x	3,336,402	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	—	713,015	0.7x	14%	3,900,618	2.2x	4,613,633	1.7x	40%	13%
BREP V (Dec 2005 / Feb 2007)	5,539,418	—	4,440,351	2.3x	28%	8,393,813	2.2x	12,834,164	2.2x	13%	11%
BREP VI (Feb 2007 / Aug 2011)	11,059,523	584,008	7,592,592	2.1x	65%	17,662,251	2.4x	25,254,843	2.3x	15%	13%
BREP VII (Aug 2011 / Apr 2015)	13,490,570	2,565,752	16,088,059	1.6x	1%	8,031,818	1.9x	24,119,877	1.7x	33%	23%
BREP VIII (Apr 2015 / Oct 2020)	15,940,743	12,797,781	3,389,563	1.1x	—	—	N/A	3,389,563	1.1x	N/A	15%
Total Global BREP	\$ 51,471,417	\$15,947,541	\$32,223,580	1.6x	20%	\$45,529,413	2.2x	\$ 77,752,993	1.9x	22%	17%
<b>Euro</b>											
BREP Int'l (Jan 2001 / Sep 2005)	€ 824,172	€ —	€ —	N/A	—	€ 1,366,154	2.1x	€ 1,366,154	2.1x	23%	23%
BREP Int'l II (Sep 2005 / Jun 2008)	1,629,748	54,138	520,843	1.1x	63%	1,714,266	1.8x	2,235,109	1.6x	8%	5%
BREP Europe III (Jun 2008 / Sep 2013)	3,205,140	471,643	3,380,172	1.9x	4%	2,496,255	2.2x	5,876,427	2.0x	24%	19%
BREP Europe IV (Sep 2013 / Mar 2019)	6,695,866	2,185,988	6,246,497	1.3x	—	405,114	1.4x	6,651,611	1.3x	33%	19%
Total Euro BREP	€ 12,354,926	€ 2,711,769	€10,147,512	1.4x	4%	€ 5,981,789	2.0x	€ 16,129,301	1.6x	16%	14%
BREP Co-Investment (e)	\$ 6,109,088	\$ —	\$ 5,686,895	1.7x	66%	\$ 6,156,862	2.3x	\$ 11,843,757	1.9x	17%	16%
BREP Asia (Jun 2013 / Dec 2017)	5,078,300	2,781,959	2,939,592	1.3x	—	85,048	1.7x	3,024,640	1.3x	33%	13%
Total BREP	\$ 78,732,628	\$21,675,024	\$53,661,654	1.5x	20%	\$59,746,625	2.2x	\$113,408,279	1.8x	20%	16%
BPP (f)	\$ 10,323,584	\$ 2,237,310	\$ 9,029,698	1.1x	—	\$ —	N/A	\$ 9,029,698	1.1x	N/A	18%
BREDS (g)	\$ 7,024,734	\$ 2,549,256	\$ 2,398,503	1.2x	—	\$ 5,456,371	1.3x	\$ 7,854,874	1.3x	13%	12%
<b>Hedge Fund Solutions</b>											
BSCH (Dec 2013 / Jun 2020) (h)	\$ 3,300,600	\$ 3,015,378	\$ 287,802	1.1x	—	\$ 57,987	N/A	\$ 345,789	1.3x	N/A	6%
BSCH Co-Investment	75,500	75,500	—	N/A	—	—	N/A	—	N/A	N/A	N/A
Total Hedge Fund Solutions	\$ 3,376,100	\$ 3,090,878	\$ 287,802	1.1x	—	\$ 57,987	N/A	\$ 345,789	1.3x	N/A	6%

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments		Realized Investments		Total Investments		Net IRR (c)		
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Credit (i)</b>											
<b>Dollar</b>											
Mezzanine I (Jul 2007 / Oct 2011)	\$ 2,000,000	\$ 99,280	\$ 457,313	1.7x	—	\$ 4,396,393	1.6x	\$ 4,853,706	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,001,026	2,806,501	1.1x	—	1,811,700	1.4x	4,618,201	1.2x	N/A	14%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	553,131	1,670,415	1.2x	—	4,092,198	1.5x	5,762,613	1.4x	N/A	12%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	2,973,619	2,286,253	1.0x	—	88,846	1.1x	2,375,099	1.0x	N/A	5%
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,866	2,533,928	323,839	1.0x	—	—	N/A	323,839	1.0x	N/A	N/M
Total Dollar Credit	<u>\$17,355,009</u>	<u>\$ 8,160,984</u>	<u>\$7,544,321</u>	<u>1.1x</u>	<u>—</u>	<u>\$10,389,137</u>	<u>1.5x</u>	<u>\$17,933,458</u>	<u>1.3x</u>	<u>N/A</u>	<u>14%</u>
<b>Euro</b>											
European Senior Debt (Feb 2015 / Feb 2018)	€ 1,964,689	€ 3,411,806	€ 547,859	1.0x	—	€ 142,288	1.2x	€ 690,147	1.1x	N/A	N/M
Total Euro Credit	<u>€ 1,964,689</u>	<u>€ 3,411,806</u>	<u>€ 547,859</u>	<u>1.0x</u>	<u>—</u>	<u>€ 142,288</u>	<u>1.2x</u>	<u>€ 690,147</u>	<u>1.1x</u>	<u>N/A</u>	<u>N/M</u>
Total Credit	<u>\$19,621,419</u>	<u>\$11,867,603</u>	<u>\$8,139,805</u>	<u>1.1x</u>	<u>—</u>	<u>\$10,546,606</u>	<u>1.5x</u>	<u>\$18,686,411</u>	<u>1.3x</u>	<u>N/A</u>	<u>14%</u>

N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital (“MOIC”) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return (“IRR”) represents the annualized inception to December 31, 2015 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for Other Funds and Co-Investment are not meaningful as these funds have limited transaction activity
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment’s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) BPP, or Blackstone Property Partners, are the core+ real estate funds which invest with a more moderate risk profile and lower leverage.
- (g) Excludes Capital Trust drawdown funds.
- (h) BSCH is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
- (i) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.4x, 1.6x and 1.1x, respectively. Funds presented represent flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the six credit drawdown funds presented.

**Segment Analysis**

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to “our” sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

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**Private Equity**

The following table presents the results of operations for our Private Equity segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 502,640	\$ 415,841	\$ 368,146	\$ 86,799	21%	\$ 47,695	13%
Advisory Fees	10,561	21,903	24,313	(11,342)	-52%	(2,410)	-10%
Transaction and Other Fees, Net	36,258	135,718	97,678	(99,460)	-73%	38,040	39%
Management Fee Offsets	(36,760)	(19,146)	(5,683)	(17,614)	92%	(13,463)	237%
<b>Total Management Fees, Net</b>	<b>512,699</b>	<b>554,316</b>	<b>484,454</b>	<b>(41,617)</b>	<b>-8%</b>	<b>69,862</b>	<b>14%</b>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,474,987	754,402	329,993	720,585	96%	424,409	129%
<b>Unrealized</b>							
Carried Interest	(717,955)	1,222,828	398,232	(1,940,783)	N/M	824,596	207%
<b>Total Performance Fees</b>	<b>757,032</b>	<b>1,977,230</b>	<b>728,225</b>	<b>(1,220,198)</b>	<b>-62%</b>	<b>1,249,005</b>	<b>172%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	189,649	202,719	88,026	(13,070)	-6%	114,693	130%
<b>Unrealized</b>							
Unrealized	(116,338)	(23,914)	161,749	(92,424)	386%	(185,663)	N/M
<b>Total Investment Income</b>	<b>73,311</b>	<b>178,805</b>	<b>249,775</b>	<b>(105,494)</b>	<b>-59%</b>	<b>(70,970)</b>	<b>-28%</b>
Interest and Dividend Revenue	33,218	21,993	15,625	11,225	51%	6,368	41%
Other	5,854	6,569	4,259	(715)	-11%	2,310	54%
<b>Total Revenues</b>	<b>1,382,114</b>	<b>2,738,913</b>	<b>1,482,338</b>	<b>(1,356,799)</b>	<b>-50%</b>	<b>1,256,575</b>	<b>85%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	280,248	280,499	240,150	(251)	-0%	40,349	17%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	256,922	266,393	38,953	(9,471)	-4%	227,440	584%
<b>Unrealized</b>							
Carried Interest	(10,172)	210,446	342,733	(220,618)	N/M	(132,287)	-39%
<b>Total Compensation and Benefits</b>	<b>526,998</b>	<b>757,338</b>	<b>621,836</b>	<b>(230,340)</b>	<b>-30%</b>	<b>135,502</b>	<b>22%</b>
Other Operating Expenses	199,158	143,562	124,499	55,596	39%	19,063	15%
<b>Total Expenses</b>	<b>726,156</b>	<b>900,900</b>	<b>746,335</b>	<b>(174,744)</b>	<b>-19%</b>	<b>154,565</b>	<b>21%</b>
<b>Economic Income</b>	<b>\$ 655,958</b>	<b>\$ 1,838,013</b>	<b>\$ 736,003</b>	<b>\$(1,182,055)</b>	<b>-64%</b>	<b>\$ 1,102,010</b>	<b>150%</b>

N/M Not meaningful.

Note As a result of the spin-off on October 1, 2015 of Blackstone's Financial Advisory business, which did not include BXCM, the results of BXCM were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.4 billion for the year ended December 31, 2015, a decrease of \$1.4 billion compared to \$2.7 billion for the year ended December 31, 2014. The decrease in revenues was attributable to decreases in Performance Fees, Investment Income, and Total Management Fees, Net of \$1.2 billion, \$105.5 million and \$41.6 million, respectively.

The decline in 2015 revenues in our Private Equity segment was significantly driven by a decline in unrealized Performance Fees. The reduction in Unrealized Performance Fees was primarily due to negative swings in the marks of our publicly-traded Private Equity portfolio companies as a result of macroeconomic concerns and declining public equity markets. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our Private Equity fund investments, revenues in our Private Equity segment would likely continue to be negatively impacted. While unrealized markdowns in energy had a more limited impact on declining revenues in 2015, a sustained period of depressed oil and gas prices would likely adversely affect our Private Equity revenues.

Performance Fees, which are determined on a fund by fund basis, were \$757.0 million for the year ended December 31, 2015, a decrease of \$1.2 billion, compared to \$2.0 billion for the year ended December 31, 2014, principally due to the performance in our corporate private equity funds, which generated overall solid net performance which was, however, lower than the net returns in 2014. The returns in these funds were driven by strong operating performance across most of our private and public portfolios.

Investment Income was \$73.3 million for the year ended December 31, 2015, a decrease of \$105.5 million, compared to \$178.8 million for the year ended December 31, 2014, primarily due to our BCP V and BCP VI funds which generated strong net returns of 8.1% and 7.9%, respectively, for the year, but were slightly lower than the returns generated in the full year 2014 mainly as a result of the lower returns in our public portfolio.

Total Management Fees were \$512.7 million for the year ended December 31, 2015, a decrease of \$41.6 million compared to \$554.3 million for the year ended December 31, 2014, driven primarily by decreases in Transaction and Other Fees, Net and Management Fee Offsets, partially offset by an increase in Base Management Fees. Transaction and Other Fees were \$36.3 million for the year ended December 31, 2015, a decrease of \$99.5 million compared to \$135.7 million for the year ended December 31, 2014, primarily due to the timing of investment closings and the elimination of monitoring fee termination payments. Management Fee Offsets were \$(36.8) million for the year ended December 31, 2015, a decrease of \$17.6 million compared to \$(19.1) million for the year ended December 31, 2014, primarily due to the increased offset rates in recent funds. Base Management Fees were \$502.6 million for the year ended December 31, 2015, an increase of \$86.8 million compared to \$415.8 million for the year ended December 31, 2014, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business.

*Expenses*

Expenses were \$726.2 million for the year ended December 31, 2015, a decrease of \$174.7 million, compared to \$900.9 million for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of \$230.1 million in Performance Fee Compensation, slightly offset by a \$55.6 million increase in Other Operating Expenses. Performance Fee Compensation decreased as a result of the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was primarily due to non-recurring costs related to the SEC settlement, an increase in interest allocated to the segment and certain one-time costs associated with fundraising.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$2.7 billion for the year ended December 31, 2014, an increase of \$1.3 billion compared to \$1.5 billion for the year ended December 31, 2013. The increase in revenues was attributable to increases in Performance Fees and Total Management Fees, Net of \$1.2 billion and \$69.9 million, respectively, partially offset by a decrease in Investment Income of \$71.0 million.

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Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, an increase of \$1.2 billion, compared to \$728.2 million for the year ended December 31, 2013, principally due to the performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively with BCP V crossing its preferred return threshold during the period. The returns in these funds were driven by both the private and public portfolios, from strong operating performance across the portfolio as well as the initial public offerings for Michaels Stores, Catalent and Vivint's solar business.

Total Management Fees were \$554.3 million for the year ended December 31, 2014, an increase of \$69.9 million compared to \$484.5 million for the year ended December 31, 2013, driven primarily by increases in Base Management Fees and Transaction and Other Fees, Net. Base Management Fees were \$415.8 million for the year ended December 31, 2014, an increase of \$47.7 million compared to \$368.1 million for the year ended December 31, 2013, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. Transaction and Other Fees were \$135.7 million for the year ended December 31, 2014, an increase of \$38.0 million compared to \$97.7 million for the year ended December 31, 2013, primarily due to fees earned related to transaction closings.

Investment Income was \$178.8 million for the year ended December 31, 2014, a decrease of \$71.0 million, compared to \$249.8 million for the year ended December 31, 2013, primarily due to our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year, but were slightly lower than the returns generated in the full year 2013.

*Expenses*

Expenses were \$900.9 million for the year ended December 31, 2014, an increase of \$154.6 million, compared to \$746.3 million for the year ended December 31, 2013. The increase was primarily attributable to increases of \$95.2 million in Performance Fee Compensation, \$40.3 million in Compensation, and \$19.1 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to an increase in revenue on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest allocated to the segment.

*Fund Returns*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (b)	Year Ended December 31,						December 31, 2015			
	2015		2014 (a)		2013 (a)		Inception to Date		Total	
	Gross	Net	Gross	Net	Gross	Net	Realized Gross	Net	Gross	Net
BCP IV	-6%	-6%	-4%	-2%	27%	23%	57%	43%	50%	36%
BCP V	11%	8%	35%	24%	38%	35%	13%	11%	10%	8%
BCOM	50%	49%	12%	20%	8%	-2%	14%	7%	13%	6%
BCP VI	11%	8%	24%	18%	24%	13%	65%	51%	19%	12%
BEP I	-5%	-4%	15%	12%	47%	36%	61%	57%	21%	16%
BEP II (c)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Tactical Opportunities	12%	8%	22%	17%	20%	13%	39%	32%	16%	12%
Strategic Partners	22%	19%	24%	20%	8%	6%	N/A	N/A	18%	15%



**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective fund's general and limited partners.
- (b) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- (c) BEP II's investment returns are presented as N/M as its investment period commenced in February 2015.

The corporate private equity funds within the Private Equity segment have four contributed funds with closed investment periods: BCP IV, BCP V, BCOM and BEP I. As of December 31, 2015, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V "main fund" and BCP V-AC fund. Within these fund classes, the general partner ("GP") is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective Carried Interest thresholds. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses. BEP I is currently above its Carried Interest threshold.

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**Real Estate**

The following table presents the results of operations for our Real Estate segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 668,575	\$ 628,502	\$ 565,182	\$ 40,073	6%	\$ 63,320	11%
Transaction and Other Fees, Net	110,577	91,610	79,675	18,967	21%	11,935	15%
Management Fee Offsets	(26,840)	(34,443)	(22,821)	7,603	-22%	(11,622)	51%
Total Management Fees, Net	<u>752,312</u>	<u>685,669</u>	<u>622,036</u>	<u>66,643</u>	<u>10%</u>	<u>63,633</u>	<u>10%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,634,733	1,487,762	486,773	146,971	10%	1,000,989	206%
Incentive Fees	17,153	11,499	45,862	5,654	49%	(34,363)	-75%
<b>Unrealized</b>							
Carried Interest	(680,542)	524,046	1,651,700	(1,204,588)	N/M	(1,127,654)	-68%
Incentive Fees	20,802	(5,521)	(28,753)	26,323	N/M	23,232	-81%
Total Performance Fees	<u>992,146</u>	<u>2,017,786</u>	<u>2,155,582</u>	<u>(1,025,640)</u>	<u>-51%</u>	<u>(137,796)</u>	<u>-6%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
	235,582	309,095	52,359	(73,513)	-24%	256,736	490%
<b>Unrealized</b>							
	(231,889)	(58,930)	350,201	(172,959)	293%	(409,131)	N/M
Total Investment Income	<u>3,693</u>	<u>250,165</u>	<u>402,560</u>	<u>(246,472)</u>	<u>-99%</u>	<u>(152,395)</u>	<u>-38%</u>
Interest and Dividend Revenue	43,990	30,197	21,563	13,793	46%	8,634	40%
Other	(1,422)	2,863	3,384	(4,285)	N/M	(521)	-15%
Total Revenues	<u>1,790,719</u>	<u>2,986,680</u>	<u>3,205,125</u>	<u>(1,195,961)</u>	<u>-40%</u>	<u>(218,445)</u>	<u>-7%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	358,381	326,317	294,222	32,064	10%	32,095	11%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	484,037	432,996	148,837	51,041	12%	284,159	191%
Incentive Fees	8,678	5,980	23,878	2,698	45%	(17,898)	-75%
<b>Unrealized</b>							
Carried Interest	(196,347)	197,174	566,837	(393,521)	N/M	(369,663)	-65%
Incentive Fees	8,817	(2,751)	(15,015)	11,568	N/M	12,264	-82%
Total Compensation and Benefits	<u>663,566</u>	<u>959,716</u>	<u>1,018,759</u>	<u>(296,150)</u>	<u>-31%</u>	<u>(59,043)</u>	<u>-6%</u>
Other Operating Expenses	179,175	146,083	116,391	33,092	23%	29,692	26%
Total Expenses	<u>842,741</u>	<u>1,105,799</u>	<u>1,135,150</u>	<u>(263,058)</u>	<u>-24%</u>	<u>(29,351)</u>	<u>-3%</u>
Economic Income	<u>\$ 947,978</u>	<u>\$ 1,880,881</u>	<u>\$ 2,069,975</u>	<u>\$ (932,903)</u>	<u>-50%</u>	<u>\$ (189,094)</u>	<u>-9%</u>

N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$1.8 billion for the year ended December 31, 2015, a decrease of \$1.2 billion compared to \$3.0 billion for the year ended December 31, 2014. The decrease in revenues was primarily attributable to decreases in Performance Fees and Investment Income of \$1.0 billion and \$246.5 million, respectively, partially offset by an increase in Total Management Fees, Net of \$66.6 million.

The decline in 2015 revenues in our Real Estate segment was significantly driven by a decline in unrealized Performance Fees. The reduction in Unrealized Performance Fees was primarily due to negative swings in the marks of our publicly-traded Real Estate equity investments, particularly in lodging, as a result of a decline in public equity markets in 2015. If macroeconomic conditions were to deteriorate in the future with a resulting decline in our Real Estate fund investments, revenues in our Real Estate segment would likely continue to be negatively impacted.

Performance Fees, which are determined on a fund by fund basis, were \$992.1 million for the year ended December 31, 2015, a decrease of \$1.0 billion compared to \$2.0 billion for the year ended December 31, 2014. Performance Fees decreased by \$1.0 billion due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 20.9% to 9.7%. For the year ended December 31, 2015, the increase in carrying value of assets for Blackstone's contributed Real Estate opportunistic funds was driven by sustained strong operating fundamentals in the private portfolio resulting in appreciation of 16.6% offset by public portfolio depreciation of 8.6%. Our BREDS drawdown and real estate hedge funds appreciated 13.0% and 2.9%, respectively.

Investment Income was \$3.7 million for the year ended December 31, 2015, a decrease of \$246.5 million compared to \$250.2 million for the year ended December 31, 2014. The decrease in Investment Income was due to a year over year net depreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds.

Total Management Fees, Net were \$752.3 million for the year ended December 31, 2015, an increase of \$66.6 million compared to \$685.7 million for the year ended December 31, 2014, primarily attributable to increases in Base Management Fees. Base Management Fees were \$668.6 million for the year ended December 31, 2015, an increase of \$40.1 million compared to \$628.5 million for the year ended December 31, 2014. The increase was principally due to fees generated from fundraising within BREP VIII, BPP and invested capital within BREDS, partially offset by realizations across the portfolio.

*Expenses*

Expenses were \$842.7 million for the year ended December 31, 2015, a decrease of \$263.1 million, compared to \$1.1 billion for the year ended December 31, 2014. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$328.2 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$33.1 million, respectively. The decrease in Performance Fee Compensation is the result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment and certain one-time costs associated with fundraising.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$3.0 billion for the year ended December 31, 2014, a decrease of \$218.4 million compared to \$3.2 billion for the year ended December 31, 2013. The decrease in revenues was primarily attributable to decreases in Investment Income and Performance Fees of \$152.4 million and \$137.8 million, respectively, partially offset by an increase in Total Management Fees, Net of \$63.6 million.

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Investment Income was \$250.2 million for the year ended December 31, 2014, a decrease of \$152.4 million compared to \$402.6 million for the year ended December 31, 2013. The decrease in Investment Income was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds.

Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, a decrease of \$137.8 million compared to \$2.2 billion for the year ended December 31, 2013. Performance Fees decreased by \$137.8 million due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments was driven by sustained strong operating fundamentals in the private portfolio and public portfolio appreciation. Our BREDS drawdown and real estate hedge funds appreciated 7.2% and 5.3%, respectively.

Total Management Fees, Net were \$685.7 million for the year ended December 31, 2014, an increase of \$63.6 million compared to \$622.0 million for the year ended December 31, 2013, primarily attributable to increases in Base Management Fees. Base Management Fees were \$628.5 million for the year ended December 31, 2014, an increase of \$63.3 million compared to \$565.2 million for the year ended December 31, 2013. The increase was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio.

*Expenses*

Expenses were \$1.1 billion for the year ended December 31, 2014, a decrease of \$29.4 million, compared to \$1.1 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$91.1 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$29.7 million, respectively. The decrease in Performance Fee Compensation is the result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment as well as increases in business development and professional fees.

*Fund Returns*

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2015 Inception to Date			
	2015		2014		2013		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP IV	-2%	-2%	12%	9%	28%	21%	65%	40%	23%	13%
BREP V	16%	14%	25%	21%	19%	15%	17%	13%	15%	11%
BREP International II (b)	20%	17%	27%	25%	32%	30%	10%	8%	7%	5%
BREP VI	-2%	-2%	20%	17%	43%	35%	20%	15%	17%	13%
BREP Europe III (b)	21%	17%	32%	25%	23%	17%	36%	24%	29%	19%
BREP VII	19%	14%	33%	25%	41%	29%	46%	33%	32%	23%
BREP VIII	N/M	N/M	N/A	N/A	N/A	N/A	N/A	N/A	53%	15%
BREP Asia	22%	13%	19%	10%	N/M	N/M	50%	33%	23%	13%
BREP Europe IV (b)	27%	19%	32%	20%	N/M	N/M	54%	33%	29%	19%
BREDS	14%	9%	15%	10%	15%	11%	17%	13%	16%	12%
BSSF I	4%	2%	14%	10%	14%	10%	N/A	N/A	15%	11%
CMBS	2%	1%	9%	6%	11%	7%	N/A	N/A	15%	10%
BREIF	7%	4%	4%	2%	N/A	N/A	N/A	N/A	7%	4%
BPP	17%	15%	28%	24%	N/A	N/A	N/A	N/A	20%	18%
BREP Co-Investment (c)	—	—	24%	22%	43%	39%	19%	17%	18%	16%

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based net internal rates of return.
- (c) Excludes fully realized co-investments prior to Blackstone's initial public offering.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2015:

Fully Invested Funds	Gain to Cross Carried Interest Threshold (a)		
	Amount	% Change in Total Enterprise Value (b)	% Change in Equity Value
		(Amounts in Millions)	
BREP Int'l II (Sep 2005 / Jun 2008)	€ 779	46%	161%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has seven funds in their investment period, which were above their respective Carried Interest thresholds as of December 31, 2015: BREP VIII, BREP Asia, BREP Europe IV and four funds within BREDS II.

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**Hedge Fund Solutions**

The following table presents the results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
Management Fees, Net							
Base Management Fees	\$ 524,386	\$ 482,981	\$ 409,321	\$ 41,405	9%	\$ 73,660	18%
Transaction and Other Fees, Net	317	569	623	(252)	-44%	(54)	-9%
Management Fee Offsets	171	(5,014)	(3,387)	5,185	N/M	(1,627)	48%
Total Management Fees, Net	<u>524,874</u>	<u>478,536</u>	<u>406,557</u>	<u>46,338</u>	<u>10%</u>	<u>71,979</u>	<u>18%</u>
Performance Fees							
Realized							
Incentive Fees	68,197	140,529	207,735	(72,332)	-51%	(67,206)	-32%
Unrealized							
Carried Interest	2,021	—	—	2,021	N/M	—	N/M
Incentive Fees	(8,084)	(879)	7,718	(7,205)	820%	(8,597)	N/M
Total Performance Fees	<u>62,134</u>	<u>139,650</u>	<u>215,453</u>	<u>(77,516)</u>	<u>-56%</u>	<u>(75,803)</u>	<u>-35%</u>
Investment Income (Loss)							
Realized							
	(12,741)	21,550	27,613	(34,291)	N/M	(6,063)	-22%
Unrealized							
	(1,435)	5,132	(9,306)	(6,567)	N/M	14,438	N/M
Total Investment Income (Loss)	<u>(14,176)</u>	<u>26,682</u>	<u>18,307</u>	<u>(40,858)</u>	<u>N/M</u>	<u>8,375</u>	<u>46%</u>
Interest and Dividend Revenue	17,274	11,114	7,605	6,160	55%	3,509	46%
Other	200	1,855	688	(1,655)	-89%	1,167	170%
Total Revenues	<u>590,306</u>	<u>657,837</u>	<u>648,610</u>	<u>(67,531)</u>	<u>-10%</u>	<u>9,227</u>	<u>1%</u>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	179,484	131,658	136,470	47,826	36%	(4,812)	-4%
Performance Fee Compensation							
Realized							
Incentive Fees	27,155	42,451	65,793	(15,296)	-36%	(23,342)	-35%
Unrealized							
Carried Interest	823	—	—	823	N/M	—	N/M
Incentive Fees	(2,912)	(273)	2,856	(2,639)	967%	(3,129)	N/M
Total Compensation and Benefits	<u>204,550</u>	<u>173,836</u>	<u>205,119</u>	<u>30,714</u>	<u>18%</u>	<u>(31,283)</u>	<u>-15%</u>
Other Operating Expenses	90,072	86,129	66,966	3,943	5%	19,163	29%
Total Expenses	<u>294,622</u>	<u>259,965</u>	<u>272,085</u>	<u>34,657</u>	<u>13%</u>	<u>(12,120)</u>	<u>-4%</u>
Economic Income	<u>\$ 295,684</u>	<u>\$ 397,872</u>	<u>\$ 376,525</u>	<u>\$(102,188)</u>	<u>-26%</u>	<u>\$ 21,347</u>	<u>6%</u>

N/M Not meaningful.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$590.3 million for the year ended December 31, 2015, a decrease of \$67.5 million compared to \$657.8 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to

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decreases in Performance Fees and Investment Income of \$77.5 million and \$40.9 million, respectively, partially offset by an increase in Total Management Fees, Net of \$46.3 million.

In 2015, Hedge Fund Solutions operated in an environment generally characterized by declines in equity and fixed income asset prices. In that connection, global markets experienced significant volatility during 2015, with the CBOE volatility index reaching its highest levels since 2011. Notwithstanding these market conditions, the BPS Composite gross return was positive 2.9% during 2015, outperforming the S&P 500 and the HFRX Hedge Fund Index. In the future, however, if global asset prices continue to decline or liquidity needs cause investors to withdraw assets, Hedge Fund Solutions revenues would likely continue to be negatively impacted. Nonetheless, Hedge Fund Solutions operates multiple business lines, manages strategies that are both long and short asset classes and generates a majority of its revenue through management fees, all of which provide a level of downside protection to Hedge Fund Solutions revenues.

Performance Fees were \$62.1 million for the year ended December 31, 2015, a decrease of \$77.5 million compared to \$139.7 million for the year ended December 31, 2014. This was primarily due to lower returns. The net returns of the underlying assets within the BPS Composite funds were 2.1% during the year ended December 31, 2015.

Investment Loss was \$14.2 million for the year ended December 31, 2015, a decrease of \$40.9 million compared to Investment Income of \$26.7 million for the year ended December 31, 2014. The decrease in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Total Management Fees, Net were \$524.9 million for the year ended December 31, 2015, an increase of \$46.3 million compared to \$478.5 million for the year ended December 31, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$524.4 million for the year ended December 31, 2015, an increase of \$41.4 million compared to \$483.0 million for the year ended December 31, 2014. This was driven by an increase in Fee-Earning Assets Under Management of 7% from the prior year, which was from net inflows and market appreciation.

*Expenses*

Expenses were \$294.6 million for the year ended December 31, 2015, an increase of \$34.7 million compared to the year ended December 31, 2014. The increase was primarily attributable to a \$47.8 million increase in Compensation, and a \$3.9 million increase in Other Operating Expenses, partially offset by a \$17.1 million decrease in Performance Fee Compensation. Compensation was \$179.5 million for the year ended December 31, 2015, an increase of \$47.8 million compared to \$131.7 million for the prior year, due to an overall increase in Management Fees, on which a portion of compensation is based, an increase in headcount to support the growth of the business and a change in the terms of Deferred Compensation Plan awards. Other Operating Expenses were \$90.1 million for the year ended December 31, 2015, an increase of \$3.9 million compared to \$86.1 million for the year ended December 31, 2014. The increase in Other Operating Expenses was primarily due to interest allocated to the segment. Performance Fee Compensation was \$25.1 million for the year ended December 31, 2015, a decrease of \$17.1 million compared to \$42.2 million for the year ended December 31, 2014 due to the decrease in Performance Fees Revenue.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

*Revenues*

Revenues were \$657.8 million for the year ended December 31, 2014, an increase of \$9.2 million compared to \$648.6 million for the year ended December 31, 2013. The increase in revenues was primarily attributable to increases in Total Management Fees, Net and Investment Income of \$72.0 million and \$8.4 million, respectively, partially offset by a decrease in Performance Fees of \$75.8 million.

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Total Management Fees, Net were \$478.5 million for the year ended December 31, 2014, an increase of \$72.0 million compared to \$406.6 million for the year ended December 31, 2013, primarily due to an increase in Base Management Fees. Base Management Fees were \$483.0 million for the year ended December 31, 2014, an increase of \$73.7 million compared to \$409.3 million for the year ended December 31, 2013. This was driven by an increase in Fee-Earning Assets Under Management of 16% from the prior year, which was from net inflows and market appreciation.

Investment Income was \$26.7 million for the year ended December 31, 2014, an increase of \$8.4 million compared to \$18.3 million for the year ended December 31, 2013. The increase in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$139.7 million for the year ended December 31, 2014, a decrease of \$75.8 million compared to \$215.5 million for the year ended December 31, 2013. This was primarily due to lower returns. The net returns of the underlying assets within the BPS Composite funds were 5.9% during the year ended December 31, 2014.

*Expenses*

Expenses were \$260.0 million for the year ended December 31, 2014, a decrease of \$12.1 million compared to the year ended December 31, 2013. The decrease was primarily attributable to a \$26.5 million decrease in Performance Fee Compensation and a \$4.8 million decrease in Compensation, partially offset by a \$19.2 million increase in Other Operating Expenses. Performance Fee Compensation was \$42.2 million for the year ended December 31, 2014, a decrease of \$26.5 million compared to \$68.6 million for the year ended December 31, 2013 due to the decrease in Performance Fees Revenue. Compensation was \$131.7 million for the year ended December 31, 2014, a decrease of \$4.8 million compared to \$136.5 million for the prior year, due to a change in the terms of Deferred Compensation Plan awards which more than offset the increase in Management Fees. Other Operating Expenses were \$86.1 million for the year ended December 31, 2014, an increase of \$19.2 million compared to \$67.0 million for the year ended December 31, 2013, primarily resulting from an increase in interest expense allocated to the segment as well as an increase in professional fees.

*Operating Metrics*

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark/Benchmark (a)		
	December 31,			December 31,		
	2013	2014	2015	2013	2014	2015
	(Dollars in Thousands)					
BAAM Managed Funds (b)	\$28,640,505	\$34,732,386	\$35,831,499	97%	94%	81%

Note: Totals in graph may not add due to rounding.

- (a) Estimated % Above High Water Mark/Benchmark represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance relative to a benchmark, where applicable. Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark or clear a benchmark return, thereby resulting in an increase in Estimated % Above High Water Mark/Benchmark.
- (b) For the BAAM managed funds, at December 31, 2015 the incremental appreciation needed for the 19% of Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks to reach their respective High Water Marks/Benchmarks was \$236.6 million, an increase of \$178.9 million, or 310.2%, compared to \$57.7 million at December 31, 2014. Of the Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks as of December 31, 2015, 93% were within 5% of reaching their respective High Water Mark.



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*Composite Returns*

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

Composite	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2015							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	3%	2%	7%	6%	6%	5%	7%	6%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions Composite, formerly known as BAAM's Core Funds Composite, covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's individual investor solutions (i.e., liquid alternatives), long-only equity, long-biased commodities, ventures (i.e., seeding and minority interests) and strategic opportunities (i.e., co-investments), and Senfina (direct trading) platforms except where a BPS fund invests directly into those platforms. BAAM's advisory platforms and liquidating funds are also excluded. On a net of fees basis, the BPS Composite was up 0.2% for the quarter and 2.1% for the full year. The historical return is from January 1, 2000.

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**Credit**

The following table presents the results of operations for our Credit segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 500,982	\$460,205	\$398,158	\$ 40,777	9%	\$ 62,047	16%
Transaction and Other Fees, Net	6,371	18,161	28,586	(11,790)	-65%	(10,425)	-36%
Management Fee Offsets	(30,065)	(28,168)	(40,329)	(1,897)	7%	12,161	-30%
Total Management Fees, Net	<u>477,288</u>	<u>450,198</u>	<u>386,415</u>	<u>27,090</u>	<u>6%</u>	<u>63,783</u>	<u>17%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	96,156	208,432	127,192	(112,276)	-54%	81,240	64%
Incentive Fees	109,396	109,717	220,736	(321)	-0%	(111,019)	-50%
<b>Unrealized</b>							
Carried Interest	(198,820)	(37,913)	108,078	(160,907)	424%	(145,991)	N/M
Incentive Fees	(19,967)	(23,025)	1,107	3,058	-13%	(24,132)	N/M
Total Performance Fees	<u>(13,235)</u>	<u>257,211</u>	<u>457,113</u>	<u>(270,446)</u>	<u>N/M</u>	<u>(199,902)</u>	<u>-44%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	7,186	9,354	4,098	(2,168)	-23%	5,256	128%
Unrealized	(16,258)	5,055	13,951	(21,313)	N/M	(8,896)	-64%
Total Investment Income (Loss)	<u>(9,072)</u>	<u>14,409</u>	<u>18,049</u>	<u>(23,481)</u>	<u>N/M</u>	<u>(3,640)</u>	<u>-20%</u>
Interest and Dividend Revenue	24,599	23,040	18,146	1,559	7%	4,894	27%
Other	5,171	(2,310)	527	7,481	N/M	(2,837)	N/M
Total Revenues	<u>484,751</u>	<u>742,548</u>	<u>880,250</u>	<u>(257,797)</u>	<u>-35%</u>	<u>(137,702)</u>	<u>-16%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	190,189	188,200	186,514	1,989	1%	1,686	1%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	52,841	116,254	69,411	(63,413)	-55%	46,843	67%
Incentive Fees	50,113	61,668	111,244	(11,555)	-19%	(49,576)	-45%
<b>Unrealized</b>							
Carried Interest	(107,000)	(28,583)	57,147	(78,417)	274%	(85,730)	N/M
Incentive Fees	(8,395)	(16,252)	508	7,857	-48%	(16,760)	N/M
Total Compensation and Benefits	<u>177,748</u>	<u>321,287</u>	<u>424,824</u>	<u>(143,539)</u>	<u>-45%</u>	<u>(103,537)</u>	<u>-24%</u>
Other Operating Expenses	93,626	90,524	96,940	3,102	3%	(6,416)	-7%
Total Expenses	<u>271,374</u>	<u>411,811</u>	<u>521,764</u>	<u>(140,437)</u>	<u>-34%</u>	<u>(109,953)</u>	<u>-21%</u>
Economic Income	<u>\$ 213,377</u>	<u>\$330,737</u>	<u>\$358,486</u>	<u>\$(117,360)</u>	<u>-35%</u>	<u>\$ (27,749)</u>	<u>-8%</u>

N/M Not meaningful.

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*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues*

Revenues were \$484.8 million for the year ended December 31, 2015, which were \$257.8 million lower compared to \$742.5 million for the year ended December 31, 2014. The decrease in revenues was primarily attributable to lower Performance Fees and Investment Income of \$270.4 million and \$23.5 million, respectively, partially offset by an increase of \$27.1 million in Total Management Fees, Net.

During the fourth quarter of 2015, the credit markets experienced widening credit spreads and significant illiquidity, particularly for below investment grade credit. In addition, energy-related issuers, which represent a significant component of the below investment grade credit markets, are operating in an environment in which oil and natural gas prices have declined materially to their lowest levels in years. Performance in all three of our alternative credit strategies was negatively impacted in the fourth quarter of 2015 by the performance of our energy investments, declines in the credit market, underperformance in certain event-driven assets and technical pressure caused by year-end selling. In the near term continued market pressure may further affect these marks. In any event, if below investment grade credit, and energy, remain depressed or subject to highly volatile market conditions, revenues in our Credit segment would likely continue to be negatively impacted.

Performance Fee Losses were \$13.2 million for the year ended December 31, 2015, which were \$270.4 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund strategies business as well as our mezzanine and rescue lending businesses. The net returns of Blackstone's significant Credit segment funds were -5.8% for Hedge Fund Strategies, -2.2% for Mezzanine Strategies and -8.8% for Rescue Lending Strategies for the year ended December 31, 2015.

Investment Loss was \$9.1 million for the year ended December 31, 2015, which were \$23.5 million lower compared to the prior year. This decrease was primarily due to the unrealized investment losses in hedge fund strategies, mezzanine funds and long only funds.

Total Management Fees, Net were \$477.3 million for the year ended December 31, 2015, an increase of \$27.1 million compared to \$450.2 million for the year ended December 31, 2014. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our business development companies.

*Expenses*

Expenses were \$271.4 million for the year ended December 31, 2015, a decrease of \$140.4 million compared to \$411.8 million for the year ended December 31, 2014. The decrease in expenses was primarily attributable to a decrease of \$145.5 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

*Year Ended December 31, 2014 Compared to December 31, 2013*

*Revenues*

Revenues were \$742.5 million for the year ended December 31, 2014, which were \$137.7 million lower compared to \$880.3 million for the year ended December 31, 2013. The decrease in revenues was primarily attributable to lower Performance Fees of \$199.9 million, partially offset by an increase of \$63.8 million in Total Management Fees, Net.

Performance Fees were \$257.2 million for the year ended December 31, 2014, which were \$199.9 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund strategies business and our rescue lending business. The net returns of Blackstone's significant Credit segment funds were 0.1% for Hedge Fund Strategies, 17.6% for Mezzanine Fund Strategies and 11.9% for Rescue Lending Strategies for the year ended December 31, 2014.

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Total Management Fees, Net were \$450.2 million for the year ended December 31, 2014, an increase of \$63.8 million compared to \$386.4 million for the year ended December 31, 2013. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our business development companies.

*Expenses*

Expenses were \$411.8 million for the year ended December 31, 2014, a decrease of \$110.0 million compared to \$521.8 million for the year ended December 31, 2013. The decrease in expenses was primarily attributable to a decrease of \$105.2 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

*Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

As of December 31, 2015, the Credit segment's returns reflect composite returns for funds included within each alternative strategy as set forth below. Previously, these returns reflected only the composite returns for the flagship funds in each strategy. The historical returns presented in the tables below have been updated to conform to the current presentation.

The following table presents composite return information of the segment's Hedge Fund Strategies funds:

<u>Fund</u>	<u>Average Annual Returns (a)</u>							
	<u>Periods Ended</u>							
	<u>December 31, 2015</u>							
	<u>One Year</u>		<u>Three Year</u>		<u>Five Year</u>		<u>Historical</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Hedge Fund Strategies (b)	-4%	-6%	7%	4%	9%	6%	11%	7%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Hedge Fund Strategies' returns represent a weighted-average composite of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The historical returns are from August 1, 2005.

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The following table presents combined internal rates of return of the segment's Mezzanine Strategies funds and Rescue Lending Strategies funds:

Composite (a)	Year Ended December 31,						Inception to December 31, 2015	
	2015		2014		2013		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Strategies (b)	-1%	-2%	23%	18%	26%	18%	23%	16%
Rescue Lending Strategies (c)	-11%	-9%	15%	12%	33%	24%	16%	12%

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) The Mezzanine Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- (c) The Rescue Lending Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from September 29, 2009.

As of December 31, 2015, one drawdown fund within Rescue Lending Strategies return was 1% below the Carried Interest threshold. For the Mezzanine Lending Strategies return, two funds representing 11.2% of the fair value included in the return were below their Carried Interest threshold.

**Financial Advisory**

The following table presents the results of operations for our Financial Advisory segment:

	Year Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
	(Dollars in Thousands)						
<b>Segment Revenues</b>							
Advisory Fees	\$ 297,570	\$ 398,942	\$ 386,201	\$(101,372)	-25%	\$ 12,741	3%
Transaction and Other Fees, Net	162	379	415	(217)	-57%	(36)	-9%
Total Advisory and Transaction Fees	297,732	399,321	386,616	(101,589)	-25%	12,705	3%
<b>Investment Income (Loss)</b>							
Realized	(868)	707	(1,625)	(1,575)	N/M	2,332	N/M
Unrealized	(39)	860	739	(899)	N/M	121	16%
Total Investment Income (Loss)	(907)	1,567	(886)	(2,474)	N/M	2,453	N/M
Interest and Dividend Revenue	12,520	10,000	7,997	2,520	25%	2,003	25%
Other	(1,303)	428	1,450	(1,731)	N/M	(1,022)	-70%
Total Revenues	308,042	411,316	395,177	(103,274)	-25%	16,139	4%
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	180,917	226,837	258,284	(45,920)	-20%	(31,447)	-12%
Other Operating Expenses	62,326	87,484	81,843	(25,158)	-29%	5,641	7%
Total Expenses	243,243	314,321	340,127	(71,078)	-23%	(25,806)	-8%
Economic Income	\$ 64,799	\$ 96,995	\$ 55,050	\$ (32,196)	-33%	\$ 41,945	76%

N/M Not meaningful.

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As a result of the spin-off on October 1, 2015 of Blackstone's Financial Advisory business, which did not include BXCM, the results of BXCM were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification. Subsequent to September 30, 2015, the former Financial Advisory segment is reporting no revenues, no expenses, and no results. The table presented above is for comparative purposes only.

## **Liquidity and Capital Resources**

### ***General***

Blackstone's business model derives revenue primarily from third party assets under management. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, and pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$22.5 billion as of December 31, 2015, down \$9.0 billion from December 31, 2014. The decrease was principally due to a decrease in Investments of \$8.4 billion. Total liabilities were \$10.3 billion as of December 31, 2015, a decrease of \$3.9 billion from December 31, 2014. The decrease was principally due to a decrease in Loans Payable of \$2.8 billion. The decreases in total assets and total liabilities was primarily due to the adoption as of January 1, 2015 of new accounting consolidation guidance which resulted in the deconsolidation of certain Blackstone Funds.

For the year ended December 31, 2015, we had Total Fee Related Revenues of \$2.6 billion and related expenses of \$1.6 billion, generating Fee Related Earnings of \$935.6 million and Distributable Earnings of \$3.8 billion.

### ***Sources of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010, 2012, 2014 and 2015 issuances of senior notes. As of December 31, 2015, Blackstone had \$1.8 billion in cash, \$2.2 billion invested in Blackstone's Treasury Cash Management Strategies, \$159.8 million invested in liquid Blackstone Funds, \$1.9 billion invested in illiquid Blackstone Funds and \$129.5 million invested in other investments, against \$2.8 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

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On May 19, 2015, Blackstone issued €300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

In addition to the cash we received from our debt offerings and availability under our committed revolving credit facility, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

The following table calculates Blackstone’s Fee Related Earnings, Distributable Earnings and Economic Net Income:

(Dollars in Thousands)	<u>2015</u>	<u>2014</u>	<u>2013</u>		
▶ Base Management Fees <sup>(a)</sup>	\$ 2,196,583	\$ 1,987,529	\$ 1,740,807	<b>Fee Earnings</b>	
▶ Advisory Fees <sup>(a)</sup>	308,131	420,845	410,514		
▶ Transaction and Other Fees, Net <sup>(a)</sup>	153,685	246,437	206,977		
▶ Management Fee Offsets <sup>(a)</sup>	(93,494)	(86,771)	(72,220)		
▶ Other Revenue <sup>(a)</sup>	8,500	9,405	10,308		
▶ Compensation <sup>(a)</sup>	(1,189,219)	(1,153,511)	(1,115,640)		
▶ Non-Interest Operating Expenses <sup>(b)</sup>	(448,575)	(420,927)	(382,735)		
<b>Fee Related Earnings</b>	<b>\$ 935,611</b>	<b>\$ 1,003,007</b>	<b>\$ 798,011</b>	<b>Distributable Earnings</b>	
▶ Net Realized Incentive Fees <sup>(b)</sup>	108,800	151,646	273,418		
▶ Net Realized Carried Interest <sup>(b)</sup>	2,412,076	1,634,953	686,757		
▶ Realized Investment Income <sup>(a)</sup>	418,808	543,425	170,471		
▶ Net Interest (Loss) <sup>(b)</sup>	(44,181)	(36,511)	(32,968)		
▶ Taxes and Related Payables <sup>(c)</sup>	(90,470)	(280,788)	(156,734)		
▶ Equity-Based Compensation <sup>(d)</sup>	103,044	48,226	130,124		
<b>Distributable Earnings</b>	<b>\$ 3,843,688</b>	<b>\$ 3,063,958</b>	<b>\$ 1,869,079</b>		<b>Economic Net Income</b>
▶ Net Unrealized Incentive Fees <sup>(b)</sup>	(4,759)	(10,149)	(8,277)		
▶ Net Unrealized Carried Interest <sup>(b)</sup>	(1,282,600)	1,329,924	1,191,293		
▶ Unrealized Investment Income (Loss) <sup>(a)</sup>	(365,959)	(71,797)	517,334		
▶ Add Back: Related Payables <sup>(e)</sup>	62,943	81,276	74,570		
▶ Less: Equity-Based Compensation <sup>(d)</sup>	(103,044)	(48,226)	(130,124)		
<b>Economic Net Income</b>	<b>\$ 2,150,269</b>	<b>\$ 4,344,986</b>	<b>\$ 3,513,875</b>		

- (a) Represents the total segment amounts of the respective captions. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Represents the current tax provision calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.



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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

(Dollars in Thousands)	2015	2014	2013
Operating Expenses <sup>(a)</sup>	\$ 624,357	\$ 553,782	\$ 486,639
Less: Interest Expense	(175,782)	(132,855)	(103,904)
<b>Non-Interest Operating Expenses</b>	<b>\$ 448,575</b>	<b>\$ 420,927</b>	<b>\$ 382,735</b>
Realized Incentive Fees <sup>(a)</sup>	194,746	261,745	474,333
Less: Realized Incentive Fee Compensation <sup>(a)</sup>	(85,946)	(110,099)	(200,915)
<b>Net Realized Incentive Fees</b>	<b>\$ 108,800</b>	<b>\$ 151,646</b>	<b>\$ 273,418</b>
Realized Carried Interest <sup>(a)</sup>	3,205,876	2,450,596	943,958
Less: Realized Carried Interest Compensation <sup>(a)</sup>	(793,800)	(815,643)	(257,201)
<b>Net Realized Carried Interest</b>	<b>\$ 2,412,076</b>	<b>\$ 1,634,953</b>	<b>\$ 686,757</b>
Interest Income and Dividend Revenue <sup>(a)</sup>	131,601	96,344	70,936
Less: Interest Expense	(175,782)	(132,855)	(103,904)
<b>Net Realized Investment Loss</b>	<b>\$ (44,181)</b>	<b>\$ (36,511)</b>	<b>\$ (32,968)</b>
<b>Equity-Based Compensation<sup>(b)</sup></b>	<b>\$ 103,044</b>	<b>\$ 48,226</b>	<b>\$ 130,124</b>
<b>Taxes and Related Payables<sup>(c)</sup></b>	<b>\$ (90,470)</b>	<b>\$ (280,788)</b>	<b>\$ (156,734)</b>
Unrealized Incentive Fees <sup>(a)</sup>	(7,249)	(29,425)	(19,928)
Less: Unrealized Incentive Fee Compensation <sup>(a)</sup>	2,490	19,276	11,651
<b>Net Unrealized Incentive Fees</b>	<b>\$ (4,759)</b>	<b>\$ (10,149)</b>	<b>\$ (8,277)</b>
Unrealized Carried Interest <sup>(a)</sup>	(1,595,296)	1,708,961	2,158,010
Less: Unrealized Carried Interest Compensation <sup>(a)</sup>	312,696	(379,037)	(966,717)
<b>Net Unrealized Carried Interest</b>	<b>\$ (1,282,600)</b>	<b>\$ 1,329,924</b>	<b>\$ 1,191,293</b>
<b>Related Payables<sup>(d)</sup></b>	<b>\$ 62,943</b>	<b>\$ 81,276</b>	<b>\$ 74,570</b>

- (a) Represents the total segment amounts of the respective captions. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.
- (b) Represents equity-based award expense included in Economic Income, which excludes all transaction-related equity-based charges.
- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.

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The following table is a reconciliation of Net Income Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

(Dollars in Thousands)	2015	2014	2013
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 709,789</b>	<b>\$ 1,584,589</b>	<b>\$ 1,171,202</b>
Net Income Attributable to Non-Controlling Interests			
in Blackstone Holdings	683,516	1,701,100	1,339,845
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	219,900	335,070	198,557
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	11,145	74,794	183,315
<b>Net Income</b>	<b>\$ 1,624,350</b>	<b>\$ 3,695,553</b>	<b>\$ 2,892,919</b>
Provision for Taxes	190,398	291,173	255,642
<b>Income Before Provision for Taxes</b>	<b>\$ 1,814,748</b>	<b>\$ 3,986,726</b>	<b>\$ 3,148,561</b>
Transaction Related Charges <sup>(a)</sup>	489,563	856,382	722,707
Amortization of Intangibles <sup>(b)</sup>	104,530	111,254	106,643
(Income) Associated with Non-Controlling Interests of Consolidated Entities <sup>(c)</sup>	(231,045)	(409,864)	(381,872)
<b>Economic Income</b>	<b>\$ 2,177,796</b>	<b>\$ 4,544,498</b>	<b>\$ 3,596,039</b>
Taxes <sup>(d)</sup>	(27,527)	(199,512)	(82,164)
<b>Economic Net Income</b>	<b>\$ 2,150,269</b>	<b>\$ 4,344,986</b>	<b>\$ 3,513,875</b>
Taxes <sup>(d)</sup>	27,527	199,512	82,164
Performance Fee Adjustment <sup>(e)</sup>	(1,798,077)	(4,391,877)	(3,556,373)
Investment (Income) Adjustment <sup>(f)</sup>	(52,849)	(471,628)	(687,805)
Net Interest Loss <sup>(g)</sup>	44,181	36,511	32,968
Performance Fee Compensation and Benefits Adjustment <sup>(h)</sup>	564,560	1,285,503	1,413,182
<b>Fee Related Earnings</b>	<b>\$ 935,611</b>	<b>\$ 1,003,007</b>	<b>\$ 798,011</b>
Net Realized Performance Fees <sup>(i)</sup>	2,520,876	1,786,599	960,175
Realized Investment Income <sup>(j)</sup>	418,808	543,425	170,471
Net Interest (Loss) <sup>(g)</sup>	(44,181)	(36,511)	(32,968)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(k)</sup>	(90,470)	(280,788)	(156,734)
Equity-Based Compensation <sup>(l)</sup>	103,044	48,226	130,124
<b>Distributable Earnings</b>	<b>\$ 3,843,688</b>	<b>\$ 3,063,958</b>	<b>\$ 1,869,079</b>
Interest Expense	175,782	132,855	103,904
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(k)</sup>	90,470	280,788	156,734
Depreciation and Amortization	27,213	32,300	35,441
<b>Adjusted EBITDA</b>	<b>\$ 4,137,153</b>	<b>\$ 3,509,901</b>	<b>\$ 2,165,158</b>

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- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents Interest Income and Dividend Revenue less Interest Expense.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto. Equals the sum of Net Realized Incentive Fee and Net Realized Carried Interest.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss) — Realized.
- (k) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (l) Represents equity-based award expense included in EI, which excludes all transaction-related equity-based charges.

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**Liquidity Needs**

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2015 consisted of the following:

<b>Fund</b>	<b>Blackstone and General Partner</b>		<b>Senior Managing Directors and Certain Other Professionals (a)</b>	
	<b>Original Commitment</b>	<b>Remaining Commitment</b>	<b>Original Commitment</b>	<b>Remaining Commitment</b>
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VII	\$ 500,000	\$ 500,000	\$ 225,000	\$ 225,000
BCP VI	719,718	186,033	250,000	64,620
BCP V	629,356	40,519	—	—
BEP I	50,000	5,460	—	—
BEP II	80,000	80,000	26,667	26,667
Tactical Opportunities	227,060	113,985	48,020	24,106
Strategic Partners	170,316	113,019	20,294	12,582
Other (b)	216,362	20,971	—	—
<b>Real Estate Funds</b>				
BREP VIII	300,000	241,722	100,000	80,574
BREP VII	300,000	56,048	100,000	18,683
BREP VI	750,000	38,840	150,000	7,768
BREP Europe III	100,000	13,231	35,000	4,631
BREP Europe IV	130,000	38,268	43,333	12,756
BREP Asia	50,392	23,424	16,797	7,808
BREDS II	50,000	26,693	16,667	8,898
CT Opportunity Partners I (b)	25,000	23,410	—	—
Other (c)	149,201	32,206	—	—
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033	—	—
Strategic Alliance II	50,000	1,482	—	—
Strategic Alliance III	2,000	2,000	—	—
Strategic Holdings LP	50,000	45,847	—	—
Other (c)	800	611	—	—
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	98,356	110,115	51,693
GSO Capital Solutions II	125,000	56,334	119,755	94,229
Blackstone/GSO Capital Solutions	50,000	9,462	27,666	5,236
BMezz II	17,692	3,085	—	—
GSO Credit Alpha Fund LP	52,102	34,852	50,493	33,776
GSO Euro Senior Debt Fund LP	63,000	59,842	57,223	54,355
GSP Energy Select Opportunities Fund	80,000	73,750	75,044	69,181
Other (c)	87,631	43,454	15,035	7,912
<b>Other</b>				
Treasury	38,417	9,534	—	—
<b>Total</b>	<b>\$5,234,047</b>	<b>\$1,994,471</b>	<b>\$1,487,109</b>	<b>\$ 810,475</b>

(a) For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective

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funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.

- (b) Represents a legacy fund managed by us as a result of the 2012 acquisition of the investment advisory business of BXMT.
- (c) Represents capital commitments to a number of other funds in each respective segment.

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. In April 2015, Blackstone Holdings Finance Co. L.L.C. issued \$350 million in aggregate principal amount of 4.450% Senior Notes which will mature on July 15, 2045, unless earlier redeemed or repurchased. In May 2015, Blackstone Holdings Finance Co. L.L.C. issued €300 million in aggregate principal amount of 2.000% Senior Notes which will mature on May 19, 2025, unless earlier redeemed or repurchased. (These Senior Notes are collectively referred to as the “Notes”.) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors’ ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2015, no units were repurchased. As of December 31, 2015, the amount remaining under this program available for repurchases was \$335.8 million.

### ***Distributions***

Distributable Earnings, which is derived from Blackstone’s segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Distributable

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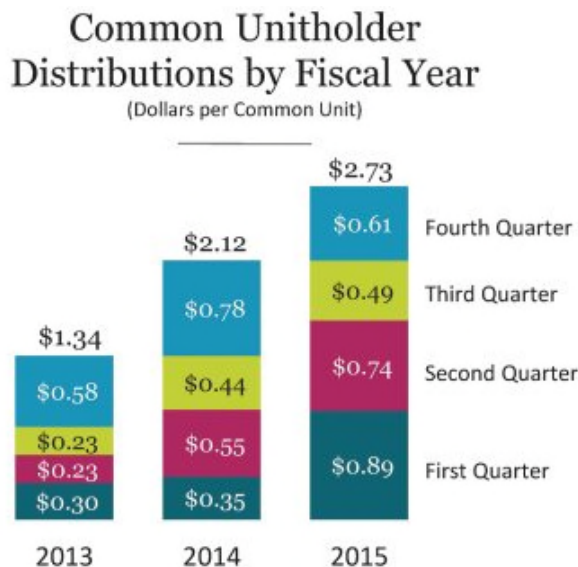
Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

The following chart shows fiscal quarterly and annual per common unitholder distributions for 2013, 2014 and 2015. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.



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With respect to fiscal year 2015, we have paid to common unitholders distributions of \$0.89, \$0.74, \$0.49 and \$0.61 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.73 per common unit. With respect to fiscal years 2014 and 2013, we paid aggregate common unitholder distributions of \$2.12 per common unit and \$1.34 per common unit, respectively.

With respect to fiscal year 2015, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.90, \$0.74, \$0.49 and \$0.65 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.78 per Blackstone Holdings Partnership Unit. With respect to fiscal years 2014 and 2013, we paid aggregate distributions of \$2.46 per Blackstone Holdings Partnership Unit and \$1.52 per Blackstone Holdings Partnership Unit, respectively.

### **Leverage**

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles.

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Real Estate debt hedge funds, Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

The following table presents information regarding these financial instruments in our Consolidated Statements of Financial Condition:

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements</b>	<b>Securities Sold, Not Yet Purchased</b>
	(Dollars in Millions)		
Balance, December 31, 2015	\$ 204.9	\$ 40.9	\$ 176.7
Balance, December 31, 2014	\$ —	\$ 29.9	\$ 85.9
<b>Year Ended December 31, 2015</b>			
Average Daily Balance	\$ 92.9	\$ 61.9	\$ 172.5
Maximum Daily Balance	\$ 236.2	\$ 147.2	\$ 281.9

### **Critical Accounting Policies**

We prepare our Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of

assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.)

### ***Principles of Consolidation***

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business — Incentive Arrangements / Fee Structure” for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.



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The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

- 0.25% to 2.00% of committed capital or invested capital during the investment period,
- 0.25% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital or net asset value subsequent to the investment period for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

- 1.50% of net asset value.

On credit-focused separately managed accounts:

- 0.35% to 1.35% of net asset value.

On real estate separately managed accounts:

- 0.50% to 2.00% of invested capital, net operating income or net asset value.

On funds of hedge funds and separately managed accounts invested in hedge funds:

- 0.50% to 1.25% of net asset value.

On CLO vehicles:

- 0.40% to 0.65% of total assets.

On credit-focused registered and non-registered investment companies:

- 0.35% to 1.50% of fund assets or net asset value.

The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ("management fee reductions") by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund

placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds’ investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund’s life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership’s principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as

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dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Expenses**

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

**Fair Value of Financial Instruments**

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. For periods prior to the adoption of new CLO measurement guidance, senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

#### *Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.
- Upon adoption of the new CLO measurement guidance adopted January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

### *Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* — Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method. On the adoption of new accounting guidance as of January 1, 2015 and the application of a permitted measurement alternative, such liabilities are valued based on the more observable fair value of related assets held by CLO vehicles less (a) the fair value of any beneficial interests held by Blackstone and (b) the carrying value of any beneficial interest that represent compensation for services.

### *Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation

committee chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

### ***Investments, at Fair Value***

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

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Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. “Fair Value Option” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.

The investments of consolidated Blackstone Funds in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee’s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee’s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. “Net Asset Value as Fair Value” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.

### **Intangibles and Goodwill**

Blackstone’s intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership’s predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone’s operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment’s fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

Management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.7 billion and \$1.8 billion as of December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, we determined there was no evidence of Goodwill impairment.

### **Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing as follows:

- Note 6. “Derivative Financial Instruments”,
- Note 9. “Variable Interest Entities”, and
- Note 18. “Commitments and Contingencies — Commitments, Operating Leases; — Commitments, Investment Commitments; and — Contingencies, Guarantees.”

### **Recent Accounting Developments**

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.



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**Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of December 31, 2015 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

<u>Contractual Obligations</u>	<u>2016</u>	<u>2017-2018</u>	<u>2019-2020</u>	<u>Thereafter</u>	<u>Total</u>
	(Dollars in Thousands)				
Operating Lease Obligations (a)	\$ 75,076	\$ 146,836	\$ 130,986	\$ 490,835	\$ 843,733
Purchase Obligations	23,748	20,574	4,333	4	48,659
Blackstone Issued Notes and Revolving Credit Facility (b)	—	—	585,000	2,227,990	2,812,990
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	147,458	288,032	249,276	1,412,674	2,097,440
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	4,453	519,318	—	3,395,009	3,918,780
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	75,651	137,702	131,874	470,539	815,766
Blackstone Funds Capital Commitments to Investee Funds (f)	48,633	—	—	—	48,633
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)	72,766	142,208	182,566	830,398	1,227,938
Unrecognized Tax Benefits, Including Interest and Penalties (h)	5,630	—	—	—	5,630
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	1,994,471	—	—	—	1,994,471
<b>Consolidated Contractual Obligations</b>	<b>2,447,886</b>	<b>1,254,670</b>	<b>1,284,035</b>	<b>8,827,449</b>	<b>13,814,040</b>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(4,453)	(519,318)	—	(3,395,009)	(3,918,780)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(75,651)	(137,702)	(131,874)	(470,539)	(815,766)
Blackstone Funds Capital Commitments to Investee Funds (f)	(48,633)	—	—	—	(48,633)
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$2,319,149</b>	<b>\$ 597,650</b>	<b>\$1,152,161</b>	<b>\$ 4,961,901</b>	<b>\$ 9,030,861</b>

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2015, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of

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December 31, 2015, at spreads to market rates pursuant to the financing agreements, and range from 0.33% to 7.00%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 17. "Related Party Transactions" (see "Item 8. Financial Statements and Supplementary Data") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$3.2 million and interest and penalties of \$2.4 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$12.5 million and interest of \$5.0 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

In connection with the spin-off of our financial and strategic advisory services, restructuring and reorganization advisory service and Park Hill group businesses, certain of the Blackstone equity awards held by PJT Partners' personnel who remained employed with PJT Partners through the spin-off were converted into equity awards of PJT Partners. As described under "Certain Relationships and Related Party Transactions — Agreements with Blackstone Related to the Spin-Off — Employee Matters Agreement" in the Form 10 filed by PJT Partners Inc. on September 3, 2015, if in the first 180 calendar days following the spin-off the value of the PJT Partners' personnel's converted equity award is less than the value that the relinquished Blackstone award would have had over the same period, Blackstone will pay (in cash, Blackstone equity or PJT Partners equity, at Blackstone's discretion) certain "true-up" awards to PJT Partners' personnel. As an illustrative example, \$8.3 million would be payable by Blackstone pursuant to this "true-up" requirement if the "true-up" awards were calculated as of December 31, 2015.

### ***Guarantees***

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 18. "Commitments and Contingencies — Contingencies — Guarantees" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

### ***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2015.

### ***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds, including available contemplated extensions, for which a liability for potential clawback obligations has been recorded for financial reporting purposes, are currently anticipated to expire at various points through 2028. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of December 31, 2015, the total clawback obligations were \$3.4 million, of which \$1.7 million related to current and former Blackstone personnel and \$1.7 million related to Blackstone Holdings. If, at December 31, 2015, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be \$4.4 billion, on an after tax basis where applicable, of which \$4.1 billion related to Blackstone Holdings and \$370.5 million related to current and former Blackstone personnel. (See Note 17. "Related Party Transactions" and Note 18. "Commitments and Contingencies" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.)

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

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**Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the years ended December 31, 2015 and December 31, 2014, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Year Ended December 31,	
	2015	2014
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	34%	36%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2015 and December 31, 2014, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2015			2014		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 85,463	\$ 1,296,886	\$ 250,246	\$ 86,002	\$ 1,725,051	\$ 268,053

- (a) Represents the annualized effect of the 10% decline.
- (b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	December 31, 2015	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 50,433,836	54%
Real Estate	\$ 66,146,413	82%
Credit	\$ 44,555,315	54%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I. Item 1A. Risk

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Factors” above. Also see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investments, at Fair Value.”) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

**Exchange Rate Risk**

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2015 and December 31, 2014, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2015			2014		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 13,464	\$ 270,190	\$ 41,445	\$ 21,882	\$ 333,784	\$ 36,254

(Dollars in Thousands)

- (a) Represents the annualized effect of the 10% decline.
- (b) Represents the reporting date effect of the 10% decline.

**Interest Rate Risk**

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2015 and December 31, 2014, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	December 31,	
	2015	2014
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 45	\$ 69

(Dollars in Thousands)

Blackstone’s Treasury Cash Management Strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the “Treasury Liquidity Portfolio”). This portfolio includes cash, open-ended

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money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	December 31,			
	2015	Annualized Increase in Interest Income from Floating Rate Assets	2014	Annualized Increase in Interest Income from Floating Rate Assets
One Percentage Point Increase in Interest Rates	\$ 140 (a)	\$ 20,486	\$ 17,868 (a)	\$ 15,201

(a) As of December 31, 2015 and 2014, this represents 0.0% and 0.6% of the Treasury Liquidity Portfolio, respectively.

**Credit Risk**

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	December 31,	
	2015	2014
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$32,182	\$57,157

(a) As of December 31, 2015 and 2014, this represents 0.8% and 1.8% of the Treasury Liquidity Portfolio, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Independent Registered Public Accounting Firm

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2015. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission .

As discussed in Note 2 to the consolidated financial statements, Blackstone adopted the Financial Accounting Standards Board’s amended consolidation guidance as of January 1, 2015.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 26, 2016



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
(Dollars in Thousands, Except Unit Data)

	December 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,837,324	\$ 1,412,472
Cash Held by Blackstone Funds and Other	587,132	1,808,092
Investments (including assets pledged of \$64,535 and \$45,764 at December 31, 2015 and December 31, 2014 , respectively)	14,324,097	22,765,589
Accounts Receivable	613,153	559,321
Reverse Repurchase Agreements	204,893	—
Due from Affiliates	1,240,797	1,128,408
Intangible Assets, Net	345,547	458,833
Goodwill	1,718,519	1,787,392
Other Assets	377,189	324,760
Deferred Tax Assets	1,277,429	1,252,230
<b>Total Assets</b>	<b>\$ 22,526,080</b>	<b>\$ 31,497,097</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 6,116,747	\$ 8,923,841
Due to Affiliates	1,282,700	1,490,088
Accrued Compensation and Benefits	2,029,918	2,439,257
Securities Sold, Not Yet Purchased	176,667	85,878
Repurchase Agreements	40,929	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	648,662	1,194,579
<b>Total Liabilities</b>	<b>10,295,623</b>	<b>14,163,550</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>183,459</b>	<b>2,441,854</b>
<b>Partners' Capital</b>		
<b>The Blackstone Group L.P. Partners' Capital</b>		
Partners' Capital (common units: 624,450,162 issued and outstanding as of December 31, 2015; 595,624,855 issued and outstanding as of December 31, 2014)	6,322,307	6,999,830
Appropriated Partners' Capital	—	81,301
Accumulated Other Comprehensive Income	(52,519)	(20,864)
Total The Blackstone Group L.P. Partners' Capital	6,269,788	7,060,267
Non-Controlling Interests in Consolidated Entities	2,408,701	3,415,356
Non-Controlling Interests in Blackstone Holdings	3,368,509	4,416,070
<b>Total Partners' Capital</b>	<b>12,046,998</b>	<b>14,891,693</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 22,526,080</b>	<b>\$ 31,497,097</b>

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 435,775	\$ 1,325,094
Investments	4,558,216	7,759,322
Accounts Receivable	122,077	131,996
Due from Affiliates	25,561	65,124
Other Assets	12,693	48,441
<b>Total Assets</b>	<u>\$ 5,154,322</u>	<u>\$ 9,329,977</u>
<b>Liabilities</b>		
Loans Payable	\$ 3,319,656	\$ 6,787,100
Due to Affiliates	39,532	182,107
Accounts Payable, Accrued Expenses and Other	316,498	697,149
<b>Total Liabilities</b>	<u>\$ 3,675,686</u>	<u>\$ 7,666,356</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Operations**  
(Dollars in Thousands, Except Unit and Per Unit Data)

	Year Ended December 31,		
	2015	2014	2013
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,542,505	\$ 2,497,252	\$ 2,193,985
Performance Fees			
Realized			
Carried Interest	3,205,290	2,450,082	943,958
Incentive Fees	193,238	249,005	464,838
Unrealized			
Carried Interest	(1,595,174)	1,704,924	2,158,010
Incentive Fees	(6,688)	(29,749)	(22,749)
Total Performance Fees	<u>1,796,666</u>	<u>4,374,262</u>	<u>3,544,057</u>
Investment Income (Loss)			
Realized	555,171	523,735	188,644
Unrealized	(350,529)	10,265	611,664
Total Investment Income	<u>204,642</u>	<u>534,000</u>	<u>800,308</u>
Interest and Dividend Revenue	94,957	69,809	64,511
Other	7,782	9,405	10,307
<b>Total Revenues</b>	<u>4,646,552</u>	<u>7,484,728</u>	<u>6,613,168</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	1,726,191	1,868,868	1,844,485
Performance Fee Compensation			
Realized			
Carried Interest	793,801	815,643	257,201
Incentive Fees	85,945	110,099	200,915
Unrealized			
Carried Interest	(312,696)	379,037	966,717
Incentive Fees	(2,490)	(19,276)	(11,651)
Total Compensation and Benefits	<u>2,290,751</u>	<u>3,154,371</u>	<u>3,257,667</u>
General, Administrative and Other	576,103	549,463	474,442
Interest Expense	144,522	121,524	107,973
Fund Expenses	79,499	30,498	26,658
<b>Total Expenses</b>	<u>3,090,875</u>	<u>3,855,856</u>	<u>3,866,740</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	82,707	—	20,469
Net Gains from Fund Investment Activities	176,364	357,854	381,664
<b>Total Other Income</b>	<u>259,071</u>	<u>357,854</u>	<u>402,133</u>
<b>Income Before Provision for Taxes</b>	<u>1,814,748</u>	<u>3,986,726</u>	<u>3,148,561</u>
<b>Provision for Taxes</b>	<u>190,398</u>	<u>291,173</u>	<u>255,642</u>
<b>Net Income</b>	<u>1,624,350</u>	<u>3,695,553</u>	<u>2,892,919</u>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	11,145	74,794	183,315
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	219,900	335,070	198,557
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	683,516	1,701,100	1,339,845
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 709,789</u>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>
<b>Net Income Per Common Unit</b>			
Common Units, Basic	\$ 1.12	\$ 2.60	\$ 2.00
Common Units, Diluted	\$ 1.04	\$ 2.58	\$ 1.98
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	<u>634,337,179</u>	<u>608,803,111</u>	<u>587,018,828</u>
Common Units, Diluted	<u>1,188,085,411</u>	<u>613,176,405</u>	<u>590,546,640</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	<u>\$ 210,672</u>	<u>\$ 327,134</u>	<u>\$ 253,877</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in Thousands)**

	Year Ended December 31,		
	2015	2014	2013
Net Income	\$ 1,624,350	\$ 3,695,553	\$ 2,892,919
Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment	(49,238)	(57,924)	9,896
Comprehensive Income	1,575,112	3,637,629	2,902,815
Less:			
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	11,145	74,794	183,315
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	202,318	301,477	207,157
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	683,516	1,701,100	1,339,845
Comprehensive Income Attributable to The Blackstone Group L.P.	<u>\$ 678,133</u>	<u>\$ 1,560,258</u>	<u>\$ 1,172,498</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>								
	<u>Common Units</u>	<u>Partners' Capital</u>	<u>Appropriated Partners' Capital</u>	<u>Accumulated Other Compre- hensive Income</u>	<u>Total</u>	<u>Non- Controlling Interests in Consolidated Entities</u>	<u>Non- Controlling Interests in Blackstone Holdings</u>	<u>Total Partners' Capital</u>	<u>Redeemable Non- Controlling Interests in Consolidated Entities</u>
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$5,466,847	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Consolidation of Fund Entity	—	—	—	—	—	659,001	—	659,001	—
Net Income	—	1,171,202	—	—	1,171,202	198,557	1,339,845	2,709,604	183,315
Allocation of Losses of Consolidated CLO Entities	—	—	(186,183)	—	(186,183)	186,183	—	—	—
Currency Translation Adjustment	—	—	—	1,296	1,296	8,600	—	9,896	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	8,600	—	8,600	(8,600)	—	—	—
Capital Contributions	—	—	—	—	—	285,757	262	286,019	894,792
Capital Distributions	—	(679,082)	—	—	(679,082)	(306,605)	(790,397)	(1,776,084)	(555,943)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	—	(2,403)	—	(2,403)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(43)	—	—	(43)	—	—	(43)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	80,580	—	—	80,580	—	—	80,580	—
Equity-Based Compensation	—	411,516	—	—	411,516	—	399,567	811,083	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(30,737)	—	(30,737)	(2)	—	(30,739)	(127,907)
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,464,259	(20,366)	—	—	(20,366)	—	(481)	(20,847)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,519)	—	—	(2,519)	—	2,519	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	8,232,434	43,255	—	—	43,255	—	(43,255)	—	—
Issuance of New Units	1,541,199	42,400	—	—	42,400	—	—	42,400	—
<b>Balance at December 31, 2013</b>	<b>572,592,279</b>	<b>\$6,002,592</b>	<b>\$ 300,708</b>	<b>\$ 3,466</b>	<b>\$6,306,766</b>	<b>\$ 2,464,047</b>	<b>\$ 3,656,416</b>	<b>\$12,427,229</b>	<b>\$ 1,950,442</b>

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>					Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total				
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 6,306,766	\$ 2,464,047	\$ 3,656,416	\$12,427,229	\$ 1,950,442
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	8,398	—	8,398	—	—	8,398	—
Consolidation of Fund Entity	—	—	—	—	—	323,158	—	323,158	30,922
Net Income	—	1,584,589	—	—	1,584,589	335,070	1,701,100	3,620,759	74,794
Allocation of Losses of Consolidated CLO Entities	—	—	(111,723)	—	(111,723)	111,723	—	—	—
Currency Translation Adjustment	—	—	—	(24,330)	(24,330)	(33,594)	—	(57,924)	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	(33,594)	—	(33,594)	33,594	—	—	—
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities	—	(611)	—	—	(611)	—	—	(611)	—
Capital Contributions	—	—	—	—	—	760,357	—	760,357	851,658
Capital Distributions	—	(1,148,139)	—	—	(1,148,139)	(577,032)	(1,200,457)	(2,925,628)	(465,962)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	—	(1,885)	—	(1,885)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(6)	—	—	(6)	—	—	(6)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	22,982	—	—	22,982	—	—	22,982	—
Equity-Based Compensation	—	421,363	—	—	421,363	—	386,703	808,066	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(82,488)	—	(82,488)	(82)	—	(82,570)	—
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,407,733	(35,469)	—	—	(35,469)	—	(783)	(36,252)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	—	25,620	—	—	25,620	—	—	25,620	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	9,032	—	—	9,032	—	(9,032)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	16,624,843	117,877	—	—	117,877	—	(117,877)	—	—
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$14,891,693	\$ 2,441,854

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>								
	<u>Common Units</u>	<u>Partners' Capital</u>	<u>Appro- priated Partners' Capital</u>	<u>Accumulated Other Compre- hensive (Loss)</u>	<u>Total</u>	<u>Non- Controlling Interests in Consolidated Entities</u>	<u>Non- Controlling Interests in Blackstone Holdings</u>	<u>Total Partners' Capital</u>	<u>Redeemable Non- Controlling Interests in Consolidated Entities</u>
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$14,891,693	\$ 2,441,854
Deconsolidation of CLOs and Funds on Adoption of ASU 2015-02	—	—	(90,928)	—	(90,928)	(1,002,728)	—	(1,093,656)	(2,258,289)
Adjustment to Appropriated Partners' Capital on Adoption of ASU 2014-13	—	—	9,627	—	9,627	—	—	9,627	—
Net Income	—	709,789	—	—	709,789	219,900	683,516	1,613,205	11,145
Currency Translation Adjustment	—	—	—	(31,655)	(31,655)	(39,475)	—	(71,130)	—
Capital Contributions	—	—	—	—	—	491,456	—	491,456	2,357
Capital Distributions	—	(1,812,602)	—	—	(1,812,602)	(663,536)	(1,684,744)	(4,160,882)	(13,608)
Distributions Associated with the Spin-Off	—	(232,034)	—	—	(232,034)	—	(135,204)	(367,238)	—
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	—	(12,272)	—	(12,272)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	65,027	—	—	65,027	—	—	65,027	—
Equity-Based Compensation	—	356,440	—	—	356,440	—	315,442	671,882	—
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	12,180,703	(59,128)	—	—	(59,128)	—	(1,903)	(61,031)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	—	70,317	—	—	70,317	—	—	70,317	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	92,785	—	—	92,785	—	(92,785)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	16,644,604	131,883	—	—	131,883	—	(131,883)	—	—
<b>Balance at December 31, 2015</b>	<u>624,450,162</u>	<u>\$ 6,322,307</u>	<u>\$ —</u>	<u>\$ (52,519)</u>	<u>\$ 6,269,788</u>	<u>\$ 2,408,701</u>	<u>\$ 3,368,509</u>	<u>\$12,046,998</u>	<u>\$ 183,459</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2015	2014	2013
<b>Operating Activities</b>			
Net Income	\$ 1,624,350	\$ 3,695,553	\$ 2,892,919
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Blackstone Funds Related			
Unrealized (Appreciation) Depreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	356,170	(430,738)	(1,069,479)
Net Realized Gains on Investments	(4,121,003)	(3,343,635)	(1,792,106)
Changes in Unrealized (Gains) Losses on Investments Allocable to The Blackstone Group L.P.	365,894	83,140	(506,546)
Non-Cash Performance Fees	1,391,946	(1,317,707)	(1,143,903)
Non-Cash Performance Fee Compensation	564,560	1,285,503	1,413,182
Equity-Based Compensation Expense	629,642	734,733	855,087
Excess Tax Benefits Related to Equity-Based Compensation	(70,318)	(25,646)	(5,769)
Amortization of Intangibles	101,437	101,915	95,671
Other Non-Cash Amounts Included in Net Income	144,657	121,808	206,451
Cash Flows Due to Changes in Operating Assets and Liabilities			
Cash Held by Blackstone Funds and Other	1,220,959	(390,092)	371,641
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(442,370)	(476,533)	(173,726)
Accounts Receivable	(213,706)	229,331	(46,580)
Reverse Repurchase Agreements	(204,893)	148,984	99,034
Due from Affiliates	(97,487)	229,837	237,169
Other Assets	(149,732)	(82,890)	15,445
Accrued Compensation and Benefits	(917,428)	(836,852)	(454,724)
Securities Sold, Not Yet Purchased	96,780	(144,383)	(142,952)
Accounts Payable, Accrued Expenses and Other Liabilities	(474,652)	(305,978)	(316,082)
Repurchase Agreements	11,012	(325,199)	174,629
Due to Affiliates	(102,847)	35,504	(216,671)
Treasury Cash Management Strategies			
Investments Purchased	(3,907,391)	(3,448,738)	(4,368,096)
Cash Proceeds from Sale of Investments	3,909,637	3,022,390	4,643,886
Blackstone Funds Related			
Investments Purchased	(4,029,723)	(7,531,108)	(8,245,313)
Cash Proceeds from Sale or Pay Down of Investments	6,711,549	10,625,790	11,024,774
Net Cash Provided by Operating Activities	<u>2,397,043</u>	<u>1,654,989</u>	<u>3,547,941</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(59,247)	(30,271)	(25,637)
Net Cash Paid for Acquisitions, Net of Cash Acquired	—	—	(146,117)
Changes in Restricted Cash	5,843	5,846	5,850
Net Cash Used in Investing Activities	<u>(53,404)</u>	<u>(24,425)</u>	<u>(165,904)</u>



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2015	2014	2013
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (677,110)	\$ (982,405)	\$ (844,011)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	479,678	1,560,183	1,114,457
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(6)	(43)
Cash Relinquished in Conjunction with the Spin-Off	(55,412)	—	—
Payments Under Tax Receivable Agreement	(84,484)	(86,733)	—
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(61,031)	(36,252)	(24,140)
Excess Tax Benefits Related to Equity-Based Compensation	70,318	25,646	5,769
Proceeds from Loans Payable	675,807	491,150	11,367
Repayment and Repurchase of Loans Payable	(923)	(8,735)	(16,777)
Distributions to Unitholders	(3,497,346)	(2,348,596)	(1,469,479)
Blackstone Funds Related			
Proceeds from Loans Payable	1,747,807	2,144,390	53,917
Repayment of Loans Payable	(516,706)	(1,808,549)	(2,090,674)
Net Cash Used in Financing Activities	(1,919,402)	(1,049,907)	(3,259,614)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	615	(183)	73
<b>Net Increase in Cash and Cash Equivalents</b>	<b>424,852</b>	<b>580,474</b>	<b>122,496</b>
Cash and Cash Equivalents, Beginning of Period	1,412,472	831,998	709,502
Cash and Cash Equivalents, End of Period	<u>\$ 1,837,324</u>	<u>\$ 1,412,472</u>	<u>\$ 831,998</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	\$ 126,167	\$ 116,296	\$ 125,361
Payments for Income Taxes	\$ 115,814	\$ 236,718	\$ 69,858
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 2,277	\$ 47,683	\$ 63,273
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (34)	\$ (60,589)	\$ (18,537)
Net Assets Associated with the Spin-Off	\$ (311,826)	\$ —	\$ —
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ (295)	\$ 16,181	\$ (6,029)
Net Assets Related to the Consolidation of CLO Vehicles	\$ —	\$ 8,398	\$ —
Net Assets Related to the Consolidation of Certain Fund Entities	\$ —	\$ 354,080	\$ 659,001
In-kind Contribution of Capital	\$ —	\$ —	\$ 2,323
Notes Issuance Costs	\$ 5,269	\$ 4,375	\$ —
Transfer of Interests to Non-Controlling Interest Holders	\$ (12,272)	\$ (1,885)	\$ (2,403)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ 92,785	\$ 9,032	\$ (2,519)
Net Settlement of Vested Common Units	\$ 139,941	\$ 69,426	\$ 153,522
Conversion of Blackstone Holdings Units to Common Units	\$ 131,883	\$ 117,877	\$ 43,255
Acquisition of Ownership Interests from Non-Controlling Interest Holders Deferred Tax Asset	\$ (195,291)	\$ (105,686)	\$ (113,757)
Due to Affiliates	\$ 130,264	\$ 82,704	\$ 33,177
Partners' Capital	\$ 65,027	\$ 22,982	\$ 80,580
Issuance of New Units	\$ —	\$ —	\$ 42,400

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries (“Blackstone” or the “Partnership”), is a leading global manager of private capital. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts (“REITs”), funds of hedge funds, hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, collateralized debt obligation (“CDO”) vehicles, separately managed accounts and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone has also historically provided various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Blackstone’s business is organized into four segments: private equity, real estate, hedge fund solutions and credit.

On October 1, 2015, Blackstone completed the spin-off of the operations that historically constituted Blackstone’s Financial Advisory segment, other than Blackstone’s capital markets services business. Blackstone’s capital markets services business was retained and was not part of the spin-off. As of October 1, 2015, Blackstone no longer reported a Financial Advisory segment.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone’s founders, Stephen A. Schwarzman (the “Founder”), and Blackstone’s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings AI L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, “Blackstone Holdings”, “Blackstone Holdings Partnerships” or the “Holding Partnerships”). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

On October 1, 2015, Blackstone formed a new holding partnership, Blackstone Holdings AI L.P., which holds certain operating entities and operates in a manner similar to the existing Blackstone Holdings Partnerships.

Generally, holders of the limited partner interests in the Holding Partnerships may, four times each year, exchange their limited partnership interests (“Partnership Units”) for Blackstone common units, on a one-to-one basis, exchanging one Partnership Unit from each of the Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of the Partnership, its wholly owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Consolidated Statements of Cash Flows.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Such estimates include those used in the valuation of investments and financial instruments and the accounting for Goodwill and equity-based compensation. Actual results could differ from those estimates and such differences could be material.

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

Blackstone’s other disclosures regarding VIEs are discussed in Note 9. “Variable Interest Entities”.

**Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments in Level I include listed equities, listed derivatives and

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. For periods prior to the adoption of new CLO measurement guidance, senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

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- Upon adoption of the new CLO measurement guidance adopted January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* — Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method. On the adoption of new accounting guidance as of January 1, 2015 and the application of a permitted measurement alternative, such liabilities are valued based on the more observable fair value of related assets held by CLO vehicles less (a) the fair value of any beneficial interests held by Blackstone and (b) the carrying value of any beneficial interest that represents compensation for services.

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*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities



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within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" to the Consolidated Financial Statements.

The investments of consolidated Blackstone Funds in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value".

Security and loan transactions are recorded on a trade date basis.

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments approximates fair value.

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**Cash and Cash Equivalents**

Cash and Cash Equivalents represents cash on hand, cash held in banks, money market funds and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

**Cash Held by Blackstone Funds and Other**

Cash Held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, receivables relating to unsettled sale transactions and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated

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useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally ten to fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

**Comprehensive Income**

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

**Redeemable Non-Controlling Interests in Consolidated Entities**

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

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**Non-Controlling Interests in Blackstone Holdings**

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

**Compensation and Benefits**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

**Other Income**

Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds' investments.

Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

Other Income also includes amounts attributable to the Reversal of the Tax Receivable Agreement Liability. See Note 14. "Income Taxes — Other Income — Reversal of the Tax Receivable Agreement Liability" for additional information.

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**Income Taxes**

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

**Net Income (Loss) Per Common Unit**

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to The Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements"), comprised primarily of U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from reverse repurchase agreements and repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

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The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Consolidated Statements of Financial Condition. Additional disclosures relating to reverse repurchase and repurchase agreements are discussed in Note 10. “Reverse Repurchase and Repurchase Agreements”.

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 12. “Offsetting of Assets and Liabilities”.

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to “cover” its short sale in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (“fair value hedge”), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (“freestanding derivative”). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings. Gains or losses on a derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation are reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership’s evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. For net investment hedges, the Partnership uses a method based on changes in spot rates to measure effectiveness. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair values of hedging derivative instruments are reflected within Other Assets in the Consolidated Statements of Financial Condition.

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For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

Blackstone's other disclosures regarding derivative financial instruments are discussed in Note 6. "Derivative Financial Instruments".

Blackstone's disclosures regarding offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the consolidated financial statements when declared.

**Recent Accounting Developments**

In June 2014, the FASB issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract.

The amended guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The guidance may have a material impact on Blackstone's consolidated financial statements if it is determined that both performance fees and carried interest are forms of variable consideration that may not be included in the transaction price. This may significantly delay the recognition of carried interest income and performance fees.

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In August 2015, the FASB issued new guidance deferring the effective date of the new revenue recognition standard by one year. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

In June 2014, the FASB issued amended guidance on transfers and servicing. Under the amended guidance, repurchase transactions previously accounted for as sales should be accounted for as secured borrowings. There are additional disclosures relating to repurchase agreements, secured lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings including a disaggregation of the gross obligations by the class of collateral pledged, the remaining contractual tenor of the agreements and a discussion of the potential risks associated with the agreements and the related collateral pledged.

The accounting guidance is effective for the first interim or annual period beginning after December 15, 2014. Adoption did not have a material impact on Blackstone's financial statements. The amended disclosure guidance is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The amended disclosure requirements are presented in Note 10. "Reverse Repurchase and Repurchase Agreements". Adoption did not have a material impact on Blackstone's financial statements.

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The Partnership adopted the amended guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. As a result, prior periods have not been impacted. The guidance impacted the measurement of the financial liabilities of Blackstone's consolidated CLOs. Adoption did not have a material impact on Blackstone's financial statements.

In February 2015, the FASB issued amended guidance on consolidation. The amended guidance modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. The amended guidance simplifies current consolidation rules by (a) reducing the number of consolidation models, (b) eliminating the risk that a reporting entity may have to consolidate a legal entity solely based on a fee arrangement with another legal entity, (c) placing more weight on the risk of loss in order to identify the party that has a controlling financial interest, (d) reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest, and changing rules for companies in certain industries that ordinarily employ limited partnership or VIE structures. The amended guidance is effective for public entities for interim and annual periods beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Partnership adopted the guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. As a result, prior periods have not been impacted. As a result of adoption, certain Blackstone Funds were deconsolidated as of January 1, 2015 resulting in a reduction in consolidated assets and liabilities as of January 1, 2015 of \$8.0 billion and \$4.7 billion, respectively. The impact of adoption on Redeemable Non-Controlling Interests in Consolidated Entities, Appropriated Partners' Capital, and Non-Controlling Interests in Consolidated Entities as of January 1, 2015 was a reduction of \$2.3 billion, \$90.9 million and \$1.0 billion, respectively. The cash flow impact of the adoption of the amended guidance was \$442.4 million as of January 1, 2015 and is reflected as Cash Relinquished with Deconsolidation and Liquidation of Partnership in the Consolidated Statements of Cash Flows. Adoption of the amended guidance had no impact on Net Income Attributable to The Blackstone Group L.P.



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In April 2015, the FASB issued amended guidance to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an Other Asset, consistent with debt discounts. The amendments are effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted for financial statements that have not previously been issued. The Partnership adopted the guidance as of June 30, 2015 and applied the guidance retrospectively. Adoption of the amended guidance did not have a material impact on Blackstone's financial statements.

In August 2015, the FASB issued clarifying guidance on the presentation and subsequent measurement of debt issuance costs associated with the line of credit arrangements. An entity may defer and present debt issuance costs as assets and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective immediately. Adoption of the guidance did not have a material impact on Blackstone's consolidated financial statements.

In May 2015, the FASB issued amended guidance on the disclosures for investments in certain entities that calculate NAV per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. Early application is permitted. Blackstone adopted the guidance for the quarter ended June 30, 2015 and applied the guidance retrospectively. Adoption of the guidance did not have a material impact on Blackstone's financial statements.

### 3. GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill was \$1.7 billion and \$1.8 billion as of December 31, 2015 and 2014, respectively. At October 1, 2015, the entire goodwill balance of \$68.9 million attributable to the Financial Advisory segment was transferred to PJT Partners Inc. at the spin-off. At December 31, 2015 and 2014, the Partnership determined there was no evidence of Goodwill impairment.

At December 31, 2015, goodwill has been allocated to each of the Partnership's four segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), and Credit (\$346.4 million). At December 31, 2014, goodwill has been allocated to each of the Partnership's historical segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), Credit (\$346.4 million), and Financial Advisory (\$68.9 million).

Intangible Assets, Net consists of the following:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,424,226	\$ 1,464,017
Accumulated Amortization	(1,078,679)	(1,005,184)
Intangible Assets, Net	<u>\$ 345,547</u>	<u>\$ 458,833</u>

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Changes in the Partnership’s Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2015	2014	2013
Balance, Beginning of Year	\$ 458,833	\$ 560,748	\$ 598,535
Amortization Expense	(101,437)	(101,915)	(95,671)
Acquisitions	—	—	57,884
Intangibles Transferred to PJT Partners Inc. at Spin-Off	(11,849)	—	—
Balance, End of Year	<u>\$ 345,547</u>	<u>\$ 458,833</u>	<u>\$ 560,748</u>

Amortization of Intangible Assets held at December 31, 2015 is expected to be \$82.9 million, \$43.9 million, \$43.8 million, \$43.8 million, and \$43.8 million for each of the years ending December 31, 2016, 2017, 2018, 2019, and 2020, respectively. Blackstone’s intangible assets as of December 31, 2015 are expected to amortize over a weighted-average period of 6.4 years.

**4. INVESTMENTS**

Investments consist of the following:

	December 31,	
	2015	2014
Investments of Consolidated Blackstone Funds	\$ 4,613,944	\$ 11,375,407
Equity Method Investments	3,110,810	3,240,825
Blackstone’s Treasury Cash Management Strategies	1,682,259	1,666,061
Performance Fees	4,757,932	6,337,045
Other Investments	159,152	146,251
	<u>\$ 14,324,097</u>	<u>\$ 22,765,589</u>

Blackstone’s share of Investments of Consolidated Blackstone Funds totaled \$451.9 million and \$704.9 million at December 31, 2015 and December 31, 2014, respectively.

**Investments of Consolidated Blackstone Funds**

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income — Net Gains from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2015	2014	2013
Realized Gains	\$ 223,078	\$ 143,194	\$ 205,741
Net Change in Unrealized (Losses)	(161,398)	(20,127)	(26,800)
Realized and Net Change in Unrealized Gains from Blackstone Funds	61,680	123,067	178,941
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	114,684	234,787	202,723
Other Income — Net Gains from Fund Investment Activities	<u>\$ 176,364</u>	<u>\$ 357,854</u>	<u>\$ 381,664</u>

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Notes to Consolidated Financial Statements—Continued

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**Equity Method Investments**

Blackstone’s equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended December 31, 2015, 2014 and 2013, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”) and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$82.2 million, \$297.9 million and \$591.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The summarized financial information of the Partnership’s equity method investments for December 31, 2015 are as follows:

	December 31, 2015 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 48,210,598	\$ 61,971,919	\$ 21,858,491	\$ 16,136,543	\$ 11,577	\$ 148,189,128
Other Assets	1,041,591	6,210,557	1,927,535	1,174,601	53,825	10,408,109
<b>Total Assets</b>	<b>\$ 49,252,189</b>	<b>\$ 68,182,476</b>	<b>\$ 23,786,026</b>	<b>\$ 17,311,144</b>	<b>\$ 65,402</b>	<b>\$ 158,597,237</b>
<b>Liabilities and Partners’ Capital</b>						
Debt	\$ 2,178,261	\$ 5,562,806	\$ 275,068	\$ 2,086,670	\$ —	\$ 10,102,805
Other Liabilities	1,315,572	1,573,370	1,462,072	956,305	52,269	5,359,588
<b>Total Liabilities</b>	<b>3,493,833</b>	<b>7,136,176</b>	<b>1,737,140</b>	<b>3,042,975</b>	<b>52,269</b>	<b>15,462,393</b>
Partners’ Capital	45,758,356	61,046,300	22,048,886	14,268,169	13,133	143,134,844
<b>Total Liabilities and Partners’ Capital</b>	<b>\$ 49,252,189</b>	<b>\$ 68,182,476</b>	<b>\$ 23,786,026</b>	<b>\$ 17,311,144</b>	<b>\$ 65,402</b>	<b>\$ 158,597,237</b>
<b>Statement of Operations</b>						
Interest Income	\$ 384,174	\$ 361,249	\$ 170	\$ 533,591	\$ —	\$ 1,279,184
Other Income	8,506	1,313,956	35,112	49,042	84,975	1,491,591
Interest Expense	(33,416)	(91,985)	(3,228)	(61,971)	—	(190,600)
Other Expenses	(278,911)	(355,617)	(125,393)	(167,385)	(45,203)	(972,509)
<b>Net Realized and Unrealized Gain from Investments</b>	<b>3,272,934</b>	<b>3,740,127</b>	<b>449,930</b>	<b>(954,692)</b>	<b>17,778</b>	<b>6,526,077</b>
<b>Net Income</b>	<b>\$ 3,353,287</b>	<b>\$ 4,967,730</b>	<b>\$ 356,591</b>	<b>\$ (601,415)</b>	<b>\$ 57,550</b>	<b>\$ 8,133,743</b>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone’s segments.

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**Notes to Consolidated Financial Statements—Continued**  
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The summarized financial information of the Partnership's equity method investments for December 31, 2014 are as follows:

	December 31, 2014 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 43,005,350	\$ 59,117,360	\$ 15,947,483	\$ 14,611,539	\$ 19,594	\$ 132,701,326
Other Assets	667,131	3,213,450	1,411,406	1,751,967	53,551	7,097,505
Total Assets	<u>\$ 43,672,481</u>	<u>\$ 62,330,810</u>	<u>\$ 17,358,889</u>	<u>\$ 16,363,506</u>	<u>\$ 73,145</u>	<u>\$ 139,798,831</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 836,667	\$ 3,645,998	\$ 20,550	\$ 1,254,774	\$ —	\$ 5,757,989
Other Liabilities	100,362	617,101	919,013	827,469	24,937	2,488,892
Total Liabilities	<u>937,029</u>	<u>4,263,099</u>	<u>939,563</u>	<u>2,082,243</u>	<u>24,937</u>	<u>8,246,871</u>
Partners' Capital	42,735,452	58,067,711	16,419,326	14,281,263	48,208	131,551,960
Total Liabilities and Partners' Capital	<u>\$ 43,672,481</u>	<u>\$ 62,330,810</u>	<u>\$ 17,358,889</u>	<u>\$ 16,363,506</u>	<u>\$ 73,145</u>	<u>\$ 139,798,831</u>
<b>Statement of Operations</b>						
Interest Income	\$ 406,255	\$ 260,683	\$ 483	\$ 567,008	\$ 1	\$ 1,234,430
Other Income	21,305	1,030,685	125,441	52,207	118,835	1,348,473
Interest Expense	(61,855)	(89,842)	(271)	(86,957)	(153)	(239,078)
Other Expenses	(97,073)	(249,095)	(103,787)	(177,968)	(71,297)	(699,220)
Net Realized and Unrealized Gain from Investments	8,567,193	10,441,009	547,982	643,080	3,263	20,202,527
Net Income	<u>\$ 8,835,825</u>	<u>\$ 11,393,440</u>	<u>\$ 569,848</u>	<u>\$ 997,370</u>	<u>\$ 50,649</u>	<u>\$ 21,847,132</u>

- (a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2013 are as follows:

	December 31, 2013 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$ 35,516,755	\$ 57,053,881	\$ 11,529,163	\$ 12,150,918	\$ 26,839	\$ 116,277,556
Other Assets	389,265	3,441,977	1,114,404	2,678,742	128,826	7,753,214
Total Assets	<u>\$ 35,906,020</u>	<u>\$ 60,495,858</u>	<u>\$ 12,643,567</u>	<u>\$ 14,829,660</u>	<u>\$ 155,665</u>	<u>\$ 124,030,770</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 1,691,018	\$ 3,013,762	\$ 63,830	\$ 1,165,405	\$ 967	\$ 5,934,982
Other Liabilities	54,909	886,445	689,964	1,131,557	14,222	2,777,097
Total Liabilities	<u>1,745,927</u>	<u>3,900,207</u>	<u>753,794</u>	<u>2,296,962</u>	<u>15,189</u>	<u>8,712,079</u>
Partners' Capital	34,160,093	56,595,651	11,889,773	12,532,698	140,476	115,318,691
Total Liabilities and Partners' Capital	<u>\$ 35,906,020</u>	<u>\$ 60,495,858</u>	<u>\$ 12,643,567</u>	<u>\$ 14,829,660</u>	<u>\$ 155,665</u>	<u>\$ 124,030,770</u>
<b>Statement of Operations</b>						
Interest Income	\$ 294,171	\$ 140,879	\$ 224	\$ 630,902	\$ 4	\$ 1,066,180
Other Income	10,580	752,184	89,632	30,937	101,214	984,547
Interest Expense	(37,846)	(51,544)	(310)	(68,973)	—	(158,673)
Other Expenses	(88,957)	(108,580)	(71,326)	(105,706)	(65,197)	(439,766)
Net Realized and Unrealized Gain from Investments	9,002,197	13,225,141	1,127,173	1,979,078	2,944	25,336,533
Net Income	<u>\$ 9,180,145</u>	<u>\$ 13,958,080</u>	<u>\$ 1,145,393</u>	<u>\$ 2,466,238</u>	<u>\$ 38,965</u>	<u>\$ 26,788,821</u>

- (a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**Blackstone's Treasury Cash Management Strategies**

The portion of Blackstone's Treasury Cash Management Strategies included in Investments represents the Partnership's liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone's Treasury Cash Management Strategies:

	Year Ended December 31,		
	2015	2014	2013
Realized Gains (Losses)	\$(15,525)	\$11,689	\$ (5,793)
Net Change in Unrealized Gains (Losses)	(35,709)	2,002	(9,342)
	<u>\$ (51,234)</u>	<u>\$ 13,691</u>	<u>\$ (15,135)</u>

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**Notes to Consolidated Financial Statements—Continued**  
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**Performance Fees**

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2014	\$ 2,215,584	\$ 3,721,751	\$ 15,031	\$ 384,679	\$ 6,337,045
Performance Fees Allocated as a Result of Changes in Fund Fair Values	757,001	1,026,731	27,916	(102,286)	1,709,362
Foreign Exchange Gain (Loss)	—	(48,363)	—	—	(48,363)
Fund Distributions	(1,493,142)	(1,598,431)	(33,200)	(115,339)	(3,240,112)
Performance Fees, December 31, 2015	<u>\$ 1,479,443</u>	<u>\$ 3,101,688</u>	<u>\$ 9,747</u>	<u>\$ 167,054</u>	<u>\$ 4,757,932</u>

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Year Ended December 31,		
	2015	2014	2013
Realized Gains	\$ 80	\$ 5,082	\$13,468
Net Change in Unrealized (Losses)	(4,079)	(6,309)	(6,758)
	<u>\$ (3,999)</u>	<u>\$ (1,227)</u>	<u>\$ 6,710</u>

**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2015 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$157,837	\$ 148	(a)	(a)
Credit Driven	265,735	268	(b)	(b)
Event Driven	64,513	—	(c)	(c)
Equity	252	—	(d)	(d)
Commodities	2,105	—	(e)	(e)
	<u>\$490,442</u>	<u>\$ 416</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 4% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 96% of investments in this category are redeemable as of the reporting date.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 34% of the fair value of the investments in this category may not

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be redeemed at, or within three months of, the reporting date. Investments representing 63% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 3% of the total fair value in the credit driven category are subject to redemption restrictions such as the investee fund manager's ability to limit the amount of redemptions.

- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Net Investment Hedges**

To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone's net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone's non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment. For the year ended December 31, 2015 the resulting gain was \$6.7 million.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

In June 2012, Blackstone removed the fair value hedge designation of its interest rate swaps that were previously used to hedge a portion of the interest rate risk on the Partnership's fixed rate borrowings. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

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The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	December 31, 2015				December 31, 2014			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ 53,627	\$ 319	\$ 138	\$ 1	\$ 62,078	\$ 523	\$ —	\$ —
<b>Freestanding Derivatives</b>								
Blackstone — Other								
Interest Rate Contracts	1,681,533	2,212	1,054,465	4,288	223,886	407	879,412	4,590
Foreign Currency Contracts	158,684	2,088	271,891	2,042	192,163	2,798	148,873	681
Credit Default Swaps	—	—	19,250	2,411	19,500	85	56,000	868
Consolidated Blackstone Funds								
Foreign Currency Contracts	124,595	1,400	92,094	6,490	199,364	8,915	250,244	21,875
Interest Rate Contracts	—	—	—	—	22,659	2,281	—	—
Credit Default Swaps	—	—	108,786	6,275	—	—	91,372	2,514
	<u>1,964,812</u>	<u>5,700</u>	<u>1,546,486</u>	<u>21,506</u>	<u>657,572</u>	<u>14,486</u>	<u>1,425,901</u>	<u>30,528</u>
<b>Total</b>	<u>\$2,018,439</u>	<u>\$6,019</u>	<u>\$1,546,624</u>	<u>\$21,507</u>	<u>\$719,650</u>	<u>\$15,009</u>	<u>\$1,425,901</u>	<u>\$30,528</u>

The table below summarizes the impact to the Consolidated Statements of Operations from derivative financial instruments:

	Year Ended December 31,		
	2015	2014	2013
<b>Net Investment Hedges — Foreign Currency Contracts</b>			
Hedge Ineffectiveness	\$ 283	\$ —	\$ —
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$ (8,716)	\$ (1,012)	\$34,206
Foreign Currency Contracts	12,828	8,251	4,022
Credit Default Swaps	2,336	1,363	752
Total	<u>\$ 6,448</u>	<u>\$ 8,602</u>	<u>\$38,980</u>
Net Change in Unrealized Gains (Losses)			
Interest Rate Contracts	\$ 3,933	\$ (7,757)	\$ (1,947)
Foreign Currency Contracts	(7,930)	(31,728)	2,636
Credit Default Swaps	(7,518)	5,193	392
Total	<u>\$(11,515)</u>	<u>\$(34,292)</u>	<u>\$ 1,081</u>



**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Since the inception of the above mentioned fair value hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment is being accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2015, 2014 and 2013, the Partnership had not designated any derivatives as cash flow hedges.

**7. FAIR VALUE OPTION**

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

	December 31,	
	2015	2014
<b>Assets</b>		
Loans and Receivables	\$ 261,994	\$ 40,397
Debt Securities	15,176	—
Equity and Preferred Securities	280,879	102,907
<b>Assets of Consolidated CLO Vehicles</b>		
Corporate Loans	3,087,563	6,279,592
Corporate Bonds	379,000	292,690
Other	—	44,513
	<u>\$ 4,024,612</u>	<u>\$ 6,760,099</u>
<b>Liabilities</b>		
<b>Liabilities of Consolidated CLO Vehicles</b>		
Senior Secured Notes	\$ 3,225,064	\$ 6,448,352
Subordinated Notes	98,371	348,752
	<u>\$ 3,323,435</u>	<u>\$ 6,797,104</u>

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

	Year Ended December 31,					
	2015		2014		2013	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ —	\$ (4,793)	\$ (1,703)	\$ (3,022)	\$ 43	\$ (1,101)
Debt Securities	—	(426)	—	—	—	—
Equity and Preferred Securities	(300)	(17,269)	(2,038)	6,885	(2,833)	7,273
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans	(1,895)	(36,502)	(77,041)	(28,054)	37,464	172,968
Corporate Bonds	(551)	1,188	(1,405)	(7,931)	4,510	(5,058)
Other	4,431	(3,589)	22,625	17,649	2,647	(476)
	<u>\$ 1,685</u>	<u>\$ (61,391)</u>	<u>\$ (59,562)</u>	<u>\$ (14,473)</u>	<u>\$ 41,831</u>	<u>\$ 173,606</u>
<b>Liabilities</b>						
<b>Liabilities of Consolidated CLO Vehicles</b>						
Senior Secured Notes	\$ —	\$ —	\$ (6,626)	\$ (133,274)	\$ (6,078)	\$ (485,655)
Subordinated Notes	—	57,119	—	108,611	—	96,991
	<u>\$ —</u>	<u>\$ 57,119</u>	<u>\$ (6,626)</u>	<u>\$ (24,663)</u>	<u>\$ (6,078)</u>	<u>\$ (388,664)</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table presents information for those financial instruments for which the fair value option was elected:

	December 31, 2015			December 31, 2014		
	(Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)		(Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)	
		Fair Value	(Deficiency) of Fair Value Over Principal		Fair Value	(Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (8,845)	\$ —	\$ —	\$ (5,323)	\$ —	\$ —
Debt Securities	(426)	—	—	—	—	—
Assets of Consolidated CLO Vehicles						
Corporate Loans	(77,900)	1,088	(5,620)	(197,580)	4,369	(21,876)
Corporate Bonds	(6,046)	—	—	(7,814)	—	—
	\$ (93,217)	\$ 1,088	\$ (5,620)	\$ (210,717)	\$ 4,369	\$ (21,876)

(a) Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2015 and 2014, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of December 31, 2015, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy:

	December 31, 2015				
	Level I	Level II	Level III	NAV	Total
<b>Assets</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	\$ —	\$ —	\$ —	\$155,512	\$ 155,512
Equity Securities	82,734	53,250	80,849	—	216,833
Partnership and LLC Interests	—	101,399	472,391	—	573,790
Debt Instruments	—	179,465	20,381	—	199,846
Assets of Consolidated CLO Vehicles					
Corporate Loans	—	2,886,792	200,771	—	3,087,563
Corporate Bonds	—	379,000	—	—	379,000
Freestanding Derivatives — Foreign Currency Contracts	—	1,400	—	—	1,400
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>82,734</b>	<b>3,601,306</b>	<b>774,392</b>	<b>155,512</b>	<b>4,613,944</b>
Blackstone's Treasury Cash Management Strategies					
Equity Securities	240,464	—	—	—	240,464
Debt Instruments	—	1,069,915	54,657	115,657	1,240,229
Other	—	—	—	201,566	201,566
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>240,464</b>	<b>1,069,915</b>	<b>54,657</b>	<b>317,223</b>	<b>1,682,259</b>
Money Market Funds	460,233	—	—	—	460,233
Net Investment Hedges — Foreign Currency Contracts	—	319	—	—	319
Freestanding Derivatives					
Interest Rate Contracts	1,806	406	—	—	2,212
Foreign Currency Contracts	—	2,088	—	—	2,088
Loans and Receivables	—	—	261,994	—	261,994
Other Investments	40,261	—	101,184	17,707	159,152
	<u>\$825,498</u>	<u>\$4,674,034</u>	<u>\$1,192,227</u>	<u>\$490,442</u>	<u>\$7,182,201</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2015			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$ —	\$3,225,064	\$ —	\$3,225,064
Subordinated Notes (b)	—	98,371	—	98,371
Freestanding Derivatives — Foreign Currency Contracts	—	6,490	—	6,490
Freestanding Derivatives — Credit Default Swaps	—	6,275	—	6,275
Net Investment Hedges — Foreign Currency Contracts	—	1	—	1
Freestanding Derivatives				
Interest Rate Contracts	835	3,453	—	4,288
Foreign Currency Contracts	—	2,042	—	2,042
Credit Default Swaps	—	2,411	—	2,411
Securities Sold, Not Yet Purchased	—	176,667	—	176,667
	<u>\$ 835</u>	<u>\$3,520,774</u>	<u>\$ —</u>	<u>\$3,521,609</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2014				
	Level I	Level II	Level III	NAV	Total
<b>Assets</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	\$ —	\$ —	\$ —	\$ 1,103,210	\$ 1,103,210
Equity Securities	58,934	114,115	179,311	—	352,360
Partnership and LLC Interests	—	187,140	1,496,422	—	1,683,562
Debt Instruments	—	1,502,314	105,970	—	1,608,284
Assets of Consolidated CLO Vehicles					
Corporate Loans	—	5,691,517	588,075	—	6,279,592
Corporate Bonds	—	292,690	—	—	292,690
Freestanding Derivatives — Foreign Currency Contracts	—	8,915	—	—	8,915
Freestanding Derivatives — Interest Rate Contracts	—	2,281	—	—	2,281
Other	13	19,455	25,045	—	44,513
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>58,947</b>	<b>7,818,427</b>	<b>2,394,823</b>	<b>1,103,210</b>	<b>11,375,407</b>
Blackstone's Treasury Cash Management Strategies					
Investment Funds	307,111	—	—	—	307,111
Equity Securities	71,746	—	—	—	71,746
Debt Instruments	—	1,090,794	84,894	50,507	1,226,195
Other	—	—	—	61,009	61,009
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>378,857</b>	<b>1,090,794</b>	<b>84,894</b>	<b>111,516</b>	<b>1,666,061</b>
Money Market Funds	198,278	—	—	—	198,278
Net Investment Hedges — Foreign Currency Contracts	—	523	—	—	523
Freestanding Derivatives					
Interest Rate Contracts	263	144	—	—	407
Foreign Currency Contracts	—	2,798	—	—	2,798
Credit Default Swaps	—	85	—	—	85
Loans and Receivables	—	—	40,397	—	40,397
Other Investments	31,731	436	104,491	9,593	146,251
	<u>\$ 668,076</u>	<u>\$ 8,913,207</u>	<u>\$ 2,624,605</u>	<u>\$ 1,224,319</u>	<u>\$ 13,430,207</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2014			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$ —	\$ —	\$6,448,352	\$6,448,352
Subordinated Notes (b)	—	—	348,752	348,752
Freestanding Derivatives — Foreign Currency Contracts	—	21,875	—	21,875
Freestanding Derivatives — Credit Default Swaps	—	2,514	—	2,514
Freestanding Derivatives				
Interest Rate Contracts	1,357	3,233	—	4,590
Foreign Currency Contracts	—	681	—	681
Credit Default Swaps	—	868	—	868
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
	<u>\$1,357</u>	<u>\$115,049</u>	<u>\$6,797,104</u>	<u>\$6,913,510</u>

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.
- (b) Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of December 31, 2015 and 2014, respectively:

	Year Ended December 31,	
	2015	2014
Transfers from Level I into Level II (a)	\$ —	\$ 1,639
Transfers from Level II into Level I (b)	\$32,025	\$23,758

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2015:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 66,962	Discounted Cash Flows	Discount Rate	7.8% - 25.0%	13.6%
			Revenue CAGR	-5.0% - 61.5%	10.2%
			Exit Multiple - EBITDA	5.0x - 18.2x	9.6x
			Exit Multiple - P/E	10.5x - 17.0x	11.2x
			Exit Capitalization Rate	5.5% - 11.4%	9.0%
	5,426	Other	N/A	N/A	N/A
	6,722	Transaction Price	N/A	N/A	N/A
	1,710	Market Comparable Companies	EBITDA Multiple	6.5x - 8.0x	6.6x
			Book Value Multiple	0.9x	N/A
	29	Third Party Pricing	N/A	N/A	N/A
Partnership and LLC Interests	423,588	Discounted Cash Flows	Discount Rate	2.1% - 25.8%	9.3%
			Revenue CAGR	-24.1% - 31.8%	8.6%
			Exit Multiple - EBITDA	0.1x - 23.8x	9.8x
			Exit Multiple - P/E	9.3x	N/A
			Exit Capitalization Rate	2.7% - 12.1%	6.3%
	30,437	Transaction Price	N/A	N/A	N/A
	16,963	Third Party Pricing	N/A	N/A	N/A
	1,403	Other	N/A	N/A	N/A
Debt Instruments	16,217	Third Party Pricing	N/A	N/A	N/A
	4,086	Discounted Cash Flows	Discount Rate	6.5% - 52.7%	14.1%
			Revenue CAGR	16.8%	N/A
			Exit Multiple - EBITDA	12.0x	N/A
			Exit Capitalization Rate	1.0% - 8.3%	5.8%
	78	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	180,988	Third Party Pricing	N/A	N/A	N/A
	<u>19,783</u>	Market Comparable Companies	EBITDA Multiple	4.5x - 7.0x	6.5x
Total Investments of Consolidated Blackstone Funds	<u>774,392</u>				

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**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 32,004	Discounted Cash Flows	Default Rate	1.0% - 2.0%	1.9%
			Recovery Rate	30.0% - 70.0%	67.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	22,653	Third Party Pricing	Discount Rate	5.8% - 14.0%	8.6%
			N/A	N/A	N/A
Loans and Receivables	241,897	Discounted Cash Flows	Discount Rate	6.7% - 20.6%	11.0%
	20,097	Third Party Pricing	N/A	N/A	N/A
Other Investments	81,984	Discounted Cash Flows	Discount Rate	1.4% - 12.5%	3.3%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	19,200	Transaction Price	N/A	N/A	N/A
Total	<u>\$ 1,192,227</u>				



**THE BLACKSTONE GROUP L.P.**  
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**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2014:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 106,727	Discounted Cash Flows	Discount Rate	8.4% - 24.7%	11.8%
			Revenue CAGR	0.7% - 24.4%	7.1%
			Exit Multiple - EBITDA	5.0x - 13.0x	10.1x
	67,706	Transaction Price	Exit Multiple - P/E	10.5x - 17.0x	11.2x
	163	Market Comparable Companies	N/A	N/A	N/A
	45	Third Party Pricing	EBITDA Multiple	6.7x - 7.6x	6.9x
	4,670	Other	N/A	N/A	N/A
Partnership and LLC Interests	485,748	Discounted Cash Flows	Discount Rate	4.4% - 21.5%	9.5%
			Revenue CAGR	-4.4% - 41.7%	6.5%
			Exit Multiple - EBITDA	1.0x - 19.1x	9.7x
	996,199	Transaction Price	Exit Capitalization Rate	2.0% - 19.1%	6.8%
	13,793	Third Party Pricing	N/A	N/A	N/A
	682	Other	N/A	N/A	N/A
Debt Instruments	9,570	Discounted Cash Flows	Discount Rate	8.8% - 24.7%	16.1%
			Revenue CAGR	4.7% - 6.8%	5.0%
			Exit Multiple - EBITDA	5.9x - 11.3x	11.0x
			Exit Capitalization Rate	1.0% - 12.4%	9.3%
			Default Rate	2%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	95,542	Third Party Pricing	N/A	N/A	N/A
	686	Transaction Price	N/A	N/A	N/A
	172	Market Comparable Companies	EBITDA Multiple	6.6x - 7.9x	6.6x
Assets of Consolidated CLO Vehicles	318,636	Third Party Pricing	N/A	N/A	N/A
	290,658	Market Comparable Companies	EBITDA Multiple	3.8x - 15.0x	6.1x
	3,826	Discounted Cash Flows	Discount Rate	8.0%	N/A
Total Investments of Consolidated Blackstone Funds	<u>2,394,823</u>				

continued ...

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 26,167	Discounted Cash Flows	Default Rate	1.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	30.0%	N/A
			Reinvestment Rate	LIBOR + 450 bps	N/A
			Discount Rate	5.8% - 10.0%	7.2%
	54,257	Third Party Pricing	N/A	N/A	N/A
	4,470	Transaction Price	N/A	N/A	N/A
Loans and Receivables	26,247	Discounted Cash Flows	Discount Rate	10.5% - 12.2%	10.9%
	14,150	Transaction Price	N/A	N/A	N/A
Other Investments	11,887	Transaction Price	N/A	N/A	N/A
	92,604	Discounted Cash Flows	Discount Rate	1.3% -12.5%	2.9%
			Default Rate	2.0%	N/A
			Recovery Rate	30.0%-70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
Total	<u>\$ 2,624,605</u>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<u>\$ 6,797,104</u>	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0%-70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.3% - 19.3%	2.3%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

Third Party Pricing Third Party Pricing is generally determined on the basis of prices between market participants provided by reputable dealers or pricing services.

(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the Blackstone's Treasury Cash Management Strategies, debt instruments, other investments and liabilities of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

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**Notes to Consolidated Financial Statements—Continued**
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Since December 31, 2014, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value							
	2015				2014			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period (a)	\$ 2,394,823	\$ 40,397	\$ 189,385	\$ 2,624,605	\$ 2,460,907	\$ 137,788	\$ 44,774	\$ 2,643,469
Transfer In Due to Consolidation and Acquisition (d)	—	—	—	—	205,890	—	—	205,890
Transfer Out Due to Deconsolidation	(1,460,538)	—	—	(1,460,538)	(335,357)	—	—	(335,357)
Transfer In to Level III (b)	47,097	—	31,479	78,576	570,902	—	32,681	603,583
Transfer Out of Level III (b)	(195,422)	—	(58,158)	(253,580)	(358,406)	—	(48,282)	(406,688)
Purchases	328,237	233,693	47,978	609,908	910,440	192,568	193,367	1,296,375
Sales	(383,302)	(9,535)	(40,000)	(432,837)	(1,211,216)	(284,920)	(17,138)	(1,513,274)
Settlements	—	(4,435)	(465)	(4,900)	—	(1,170)	(522)	(1,692)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	43,497	1,874	(14,378)	30,993	151,663	(3,869)	(15,495)	132,299
Balance, End of Period	\$ 774,392	\$ 261,994	\$ 155,841	\$ 1,192,227	\$ 2,394,823	\$ 40,397	\$ 189,385	\$ 2,624,605
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ (5,333)	\$ 1,745	\$ (3,624)	\$ (7,212)	\$ 43,450	\$ (4,048)	\$ (991)	\$ 38,411

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Notes to Consolidated Financial Statements—Continued

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

	Level III Financial Liabilities at Fair Value Year Ended December 31,					
	2015			2014		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ 6,448,352	\$ 348,752	\$ 6,797,104	\$ 8,302,572	\$ 610,435	\$ 8,913,007
Transfer In Due to Consolidation and Acquisition (d)	—	—	—	1,990,703	144,107	2,134,810
Transfer Out Due to Deconsolidation	(4,168,405)	(261,934)	(4,430,339)	(2,231,852)	(277,302)	(2,509,154)
Transfer Out Due to Amended CLO Guidance (e)	(2,279,947)	(86,818)	(2,366,765)	—	—	—
Issuances	—	—	—	557,780	10,000	567,780
Settlements	—	—	—	(1,807,845)	(703)	(1,808,548)
Changes in (Gains) Losses Included in Earnings and Other Comprehensive Income	—	—	—	(363,006)	(137,785)	(500,791)
Balance, End of Period	\$ —	\$ —	\$ —	\$ 6,448,352	\$ 348,752	\$ 6,797,104
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	\$ —	\$ —	\$ —	\$ 127,011	\$ (79,423)	\$ 47,588

- (a) Beginning of period 2015 balances have been adjusted to remove investments for which fair value is based on NAV. Pursuant to amended fair value guidance, disclosure in the fair value hierarchy is no longer required.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.
- (d) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities.
- (e) Transfers out due to amended CLO measurement guidance represents the transfer out of Level III for liabilities of consolidated CLO vehicles for which fair value is based on the more observable fair value of CLO assets. Such liabilities are classified as Level II within the fair value hierarchy.

**9. VARIABLE INTEREST ENTITIES**

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

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**Notes to Consolidated Financial Statements—Continued**  
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The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	December 31,	
	2015	2014
Investments	\$ 466,651	\$ 776,079
Accounts Receivable	11,726	125,316
Due from Affiliates	51,029	53,751
Total VIE Assets	529,406	955,146
Due to Affiliates	586	108
Accounts Payable, Accrued Expenses and Other Liabilities	88	124
Potential Clawback Obligation	73,450	206,725
Maximum Exposure to Loss	<u>\$ 603,530</u>	<u>\$ 1,162,103</u>

#### 10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At December 31, 2015, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$203.9 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$99.3 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$64.5 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2014, the Partnership pledged securities with a carrying value of \$44.8 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table provides information regarding the Partnership’s Repurchase Agreements obligation by type of collateral as of December 31, 2015:

	December 31, 2015				Total
	Overnight and Continuous	Remaining Contractual Maturity of the Agreements			
		Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
U.S. Treasury and Agency Securities	\$ 970	\$ —	\$ —	\$ —	\$ 970
Asset-Backed Securities	—	39,959	—	—	39,959
Total	<u>\$ 970</u>	<u>\$39,959</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$40,929</u>
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 12. “Offsetting of Assets and Liabilities”					<u>\$40,929</u>
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 12. “Offsetting of Assets and Liabilities”					<u>\$ —</u>

**11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other Assets consists of the following:

	December 31,	
	2015	2014
Furniture, Equipment and Leasehold Improvements	\$ 317,496	\$ 318,672
Less: Accumulated Depreciation	(181,953)	(182,932)
Furniture, Equipment and Leasehold Improvements, Net	135,543	135,740
Prepaid Expenses	190,241	102,503
Other Assets	46,786	82,704
Freestanding Derivatives	4,300	3,290
Net Investment Hedges	319	523
	<u>\$ 377,189</u>	<u>\$ 324,760</u>

Depreciation expense of \$26.0 million, \$28.6 million and \$33.6 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2015, 2014 and 2013, respectively, is included in General, Administrative and Other in the Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$53.7 million and \$97.8 million as of December 31, 2015 and 2014, respectively, relating to redemptions that were legally payable to investors of the consolidated Blackstone Funds and \$187.7 million and \$591.7 million, respectively, of payables relating to unsettled purchases.

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**Notes to Consolidated Financial Statements—Continued**  
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**12. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of December 31, 2015:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 319	\$ 1	\$ —	\$ 318
Freestanding Derivatives	4,300	2,149	1,310	841
Reverse Repurchase Agreements	204,893	203,938	—	955
Total	<u>\$ 209,512</u>	<u>\$ 206,088</u>	<u>\$ 1,310</u>	<u>\$ 2,114</u>

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Net Investment Hedges	\$ 1	\$ 1	\$ —	\$ —
Freestanding Derivatives	15,016	2,149	12,076	791
Repurchase Agreements	40,929	40,259	670	—
Total	<u>\$ 55,946</u>	<u>\$ 42,409</u>	<u>\$ 12,746</u>	<u>\$ 791</u>

The following tables present the offsetting of assets and liabilities as of December 31, 2014:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 523	\$ —	\$ —	\$ 523
Freestanding Derivatives	3,290	1,132	352	1,806
Total	<u>\$ 3,813</u>	<u>\$ 1,132</u>	<u>\$ 352</u>	<u>\$ 2,329</u>

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 8,653	\$ 1,132	\$ 7,424	\$ 97
Repurchase Agreements	29,907	29,438	469	—
Total	<u>\$ 38,560</u>	<u>\$ 30,570</u>	<u>\$ 7,893</u>	<u>\$ 97</u>

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Notes to Consolidated Financial Statements—Continued

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Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. See Note 11. “Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities” for the components of Other Assets.

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Statements of Financial Condition and are not a significant component thereof.

**Notional Pooling Arrangement**

Blackstone has a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of December 31, 2015, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$905.5 million, which was offset with an accompanying overdraft of \$895.9 million.

**13. BORROWINGS**

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected Blackstone Funds. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership’s credit facilities consist of the following:

	December 31,					
	2015			2014		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$1,100,000	\$ 6,129	0.88%	\$ 1,100,000	\$ 689	0.88%
Blackstone Issued Senior Notes (b)						
6.625%, Due 8/15/2019 (c)	585,000	585,000	6.63%	585,000	585,000	6.63%
5.875%, Due 3/15/2021	400,000	400,000	5.88%	400,000	400,000	5.88%
4.750%, Due 2/15/2023	400,000	400,000	4.75%	400,000	400,000	4.75%
6.250%, Due 8/15/2042	250,000	250,000	6.25%	250,000	250,000	6.25%
5.000%, Due 6/15/2044	500,000	500,000	5.00%	500,000	500,000	5.00%
4.450%, Due 7/15/2045	350,000	350,000	4.45%	—	—	—
2.000%, Due 5/19/2025	327,990	327,990	2.00%	—	—	—
	<u>3,912,990</u>	<u>2,819,119</u>	5.11%	<u>3,235,000</u>	<u>2,135,689</u>	5.71%
Blackstone Fund Facilities (d)	4,453	4,453	1.97%	6,877	6,877	2.53%
CLO Vehicles (e)	<u>3,914,326</u>	<u>3,914,326</u>	1.94%	<u>7,519,660</u>	<u>7,334,316</u>	1.27%
	<u>\$7,831,769</u>	<u>\$6,737,898</u>	3.26%	<u>\$10,761,537</u>	<u>\$9,476,882</u>	2.27%

(a) Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Interest on the



**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly. The Borrowing Outstanding at each date represent outstanding but undrawn letters of credit against the credit facility.

- (b) Blackstone Holdings Finance Co. L.L.C. (the “Issuer”), an indirect subsidiary of the Partnership, has issued long term borrowings in the form of senior notes (the “Notes”). The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings, and the Issuer (the “Guarantors”). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. The indentures include covenants, including limitations on the Issuer’s and the Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indentures also provide for events of default and further provide that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer’s option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase. Interest expense on the Notes was \$136.5 million, \$115.2 million and \$96.9 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.
- (c) The Credit Available and Borrowing Outstanding are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (d) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Because the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.
- (e) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition.

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The following table presents the general characteristics of each of our Notes, as well as their carrying value and fair value. The Notes are included in Loans Payable within the Consolidated Statements of Financial Condition. All of the Notes were issued at a discount. All of the Notes accrue interest from the Issue Date and all pay interest in arrears on a semi-annual basis or annual basis as indicated by the Interest Payment Dates.

Senior Notes	Issue Date	Interest Payment Dates	First Interest Payment Date	December 31,			
				2015		2014	
				Carrying Value	Fair Value (a)	Carrying Value (b)	Fair Value (a)
6.625%, Due 8/15/2019 (c)	8/20/2009	2/15, 8/15	2/15/2010	\$614,996	\$665,438	\$622,552	\$684,158
5.875%, Due 3/15/2021	9/15/2010	3/15, 9/15	3/15/2011	\$397,720	\$458,680	\$397,357	\$462,360
4.750%, Due 2/15/2023	8/17/2012	2/15, 9/15	2/15/2013	\$392,224	\$430,560	\$391,344	\$436,240
6.250%, Due 8/15/2042	8/17/2012	2/15, 9/15	2/15/2013	\$237,648	\$297,575	\$237,487	\$307,125
5.000%, Due 6/15/2044	4/7/2014	6/15, 12/15	12/15/2014	\$488,119	\$515,050	\$487,966	\$527,500
4.450%, Due 7/15/2045	4/27/2015	1/15, 7/15	1/15/2016	\$343,689	\$332,640	\$ —	\$ —
2.000%, Due 5/19/2025	5/19/2015	5/19	5/19/2016	\$322,664	\$327,465	\$ —	\$ —

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.
- (b) The carrying value has been adjusted to reflect the presentation of debt issuance costs as a direct deduction from the related liability for all periods presented in accordance with amended guidance on simplifying the presentation of such costs.
- (c) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	December 31,					
	2015			2014		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$3,687,976	1.93%	5.4	\$6,594,266	1.27%	3.8
Subordinated Notes	226,350(a)		N/A	740,050(a)		N/A
	<u>\$3,914,326</u>			<u>\$7,334,316</u>		

- (a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	December 31,					
	2015			2014		
	Fair Value	Amounts Due to Non-Consolidated Affiliates		Fair Value	Amounts Due to Non-Consolidated Affiliates	
	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value	Fair Value
Senior Secured Notes	\$3,225,064	\$ —	\$ —	\$6,448,352	\$ 2,500	\$ 2,504
Subordinated Notes	\$ 98,371	\$ 10,000	\$8,231	\$ 348,752	\$ 24,200	\$ 14,377

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of December 31, 2015 and 2014, the fair value of the consolidated CLO assets was \$3.9 billion and \$8.0 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2015.

Scheduled principal payments for borrowings at December 31, 2015 are as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2016	\$ —	\$ 4,453	\$ 4,453
2017	—	519,318	519,318
2018	—	—	—
2019	585,000	—	585,000
2020	—	—	—
Thereafter	2,227,990	3,395,008	5,622,998
<b>Total</b>	<b><u>\$2,812,990</u></b>	<b><u>\$ 3,918,779</u></b>	<b><u>\$ 6,731,769</u></b>

**14. INCOME TAXES**

Income Before Provision for Taxes of \$1.8 billion for the year ended December 31, 2015 is comprised of \$1.8 billion U.S. domestic income and \$59.8 million foreign income.

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**Notes to Consolidated Financial Statements—Continued**  
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The Provision for Taxes consists of the following:

	Year Ended December 31,		
	2015	2014	2013
<b>Current</b>			
Federal Income Tax	\$ 45,506	\$ 135,193	\$ 19,237
Foreign Income Tax	16,769	24,199	13,302
State and Local Income Tax	28,137	69,281	33,273
	<u>90,412</u>	<u>228,673</u>	<u>65,812</u>
<b>Deferred</b>			
Federal Income Tax	80,307	54,375	157,962
Foreign Income Tax	(398)	(416)	(638)
State and Local Income Tax	20,077	8,541	32,506
	<u>99,986</u>	<u>62,500</u>	<u>189,830</u>
Provision for Taxes	<u>\$ 190,398</u>	<u>\$ 291,173</u>	<u>\$ 255,642</u>

The following table summarizes Blackstone's tax position:

	Year Ended December 31,		
	2015	2014	2013
Income Before Provision for Taxes	\$ 1,814,748	\$ 3,986,726	\$ 3,148,561
Provision for Taxes	\$ 190,398	\$ 291,173	\$ 255,642
Effective Income Tax Rate	10.5%	7.3%	8.1%

The following table reconciles the effective income tax rate to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2015	2014	2013
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-22.3%	-28.7%	-28.7%
Interest Expense	-4.0%	-0.5%	-0.9%
Foreign Income Taxes	-0.1%	-0.3%	-0.2%
State and Local Income Taxes	1.8%	1.5%	1.7%
Equity-Based Compensation	1.8%	1.1%	1.6%
Change in Tax Rate	—	—	0.6%
Net Unrecognized Tax Benefits	-0.2%	0.1%	-0.2%
Non Deductible Expenses	0.2%	0.2%	—
Tax Deductible Compensation	-1.5%	-0.4%	-0.3%
Other	-0.2%	-0.7%	-0.5%
Effective Income Tax Rate (b)	<u>10.5%</u>	<u>7.3%</u>	<u>8.1%</u>

- (a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.
- (b) The effective tax rate is calculated on Income (Loss) Before Provision for Taxes.

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**Notes to Consolidated Financial Statements—Continued**  
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In 2013, a subsidiary of the Partnership received Letter Rulings allowing the application of New York State and New York City laws that prescribe the sourcing of income of a registered securities or commodities broker resulting in a reduction to the rate of tax for 2013 and the rate of tax that Blackstone will pay in the future.

Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 16,357	\$ 21,607
Equity-Based Compensation	57,552	56,783
Unrealized Gains from Investments	—	(119,428)
Depreciation and Amortization	1,326,395	1,314,570
Net Operating Loss Carry Forward	15,874	—
Other	—	(21,302)
Total Deferred Tax Assets	<u>1,416,178</u>	<u>1,252,230</u>
<b>Deferred Tax Liabilities</b>		
Unrealized Gains from Investments	105,830	—
Other	32,919	—
Depreciation and Amortization	—	10
Total Deferred Tax Liabilities	<u>138,749</u>	<u>10</u>
<b>Net Deferred Tax Assets</b>	<u>\$ 1,277,429</u>	<u>\$ 1,252,220</u>

As a result of the October 1, 2015 spin-off, the net deferred tax assets were reduced by \$70.8 million.

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had a taxable loss of \$46.3 million for the year ended December 31, 2015, which is available for carryback to 2013 or carryforward to 2016. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance.

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. At this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2015.

**THE BLACKSTONE GROUP L.P.****Notes to Consolidated Financial Statements—Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2015, Blackstone's U.S. federal income tax returns for the years 2012 through 2014 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service completed an examination of a corporate subsidiary's 2012 U.S. federal income tax return with no change. State and local tax returns are generally subject to audit from 2011 through 2014. The State of New York completed an examination of the tax returns filed by a subsidiary for the years 2010 through 2011 with no change. The City of New York is examining certain other subsidiaries' tax returns for the years 2007 through 2011. The Income Tax Department of the Government of India recently completed an audit of an Indian subsidiary's 2012 tax return with no change and is examining the tax returns of the Indian subsidiaries for the years 2008 and 2009. Blackstone believes that during 2016 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

Blackstone's unrecognized tax benefits, excluding related interest and penalties, were:

	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Unrecognized Tax Benefits — January 1	\$19,836	\$18,862	\$ 30,742
Additions based on Tax Positions Related to Current Year	1,031	2,104	6,517
Additions for Tax Positions of Prior Years	—	4,002	3,435
Reductions for Tax Positions of Prior Years	(4,032)	(2,503)	(17,686)
Settlements	—	(1,062)	(3,538)
Exchange Rate Fluctuations	(1,137)	(1,567)	(608)
Unrecognized Tax Benefits — December 31	<u>\$15,698</u>	<u>\$19,836</u>	<u>\$ 18,862</u>

If the above tax benefits were recognized, \$15.7 million and \$19.8 million for the years ended December 31, 2015 and 2014, respectively, would reduce the annual effective rate. Blackstone does not believe that it will have a material increase or decrease in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expense. During the year ended December 31, 2015, \$(0.4) million of interest expense and no penalties were accrued. During the year ended December 31, 2014, \$2.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2013, \$1.0 million of interest expense and no penalties were accrued.

**Other Income — Reversal of the Tax Receivable Agreement Liability**

In 2015, the \$82.7 million Reversal of the Tax Receivable Agreement Liability was primarily attributable to the October 1, 2015 spin-off. In 2013, the \$20.5 million Reversal of the Tax Receivable Agreement Liability resulted from the change in New York State's and New York City's laws regarding the sourcing of income.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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**15. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the years ended December 31, 2015, 2014 and 2013 was calculated as follows:

	Year Ended December 31,		
	2015	2014	2013
<b>Net Income for Per Common Unit Calculations</b>			
Net Income Attributable to The Blackstone Group L.P., Basic	\$ 709,789	\$ 1,584,589	\$ 1,171,202
Incremental Net Income from Assumed Exchange of Blackstone Holdings Partnership Units	524,353	—	—
Net Income Attributable to The Blackstone Group L.P., Diluted	<u>\$ 1,234,142</u>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>
<b>Units Outstanding</b>			
Weighted-Average Common Units Outstanding, Basic	634,337,179	608,803,111	587,018,828
Weighted-Average Unvested Deferred Restricted Common Units	2,993,398	4,373,294	3,527,812
Weighted-Average Blackstone Holdings Partnership Units	550,754,834	—	—
Weighted-Average Common Units Outstanding, Diluted	<u>1,188,085,411</u>	<u>613,176,405</u>	<u>590,546,640</u>
<b>Net Income Per Common Unit, Basic</b>	<u>\$ 1.12</u>	<u>\$ 2.60</u>	<u>\$ 2.00</u>
<b>Net Income Per Common Unit, Diluted</b>	<u>\$ 1.04</u>	<u>\$ 2.58</u>	<u>\$ 1.98</u>
<b>Distributions Declared Per Common Unit (a)</b>	<u>\$ 2.90</u>	<u>\$ 1.92</u>	<u>\$ 1.18</u>

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year.

The following table summarizes the anti-dilutive securities for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Weighted-Average Blackstone Holdings Partnership Units	—	542,553,088	553,579,525

**Unit Repurchase Program**

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the years ended December 31, 2015, 2014 and 2013, no units were repurchased. As of December 31, 2015, the amount remaining available for repurchases under this program was \$335.8 million.

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

16. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone’s senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership’s 2007 Equity Incentive Plan (the “Equity Plan”), the majority of which to date were granted in connection with Blackstone’s initial public offering (“IPO”). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2015, the Partnership had the ability to grant 165,943,809 units under the Equity Plan.

For the years ended December 31, 2015, 2014 and 2013 the Partnership recorded compensation expense of \$629.6 million, \$734.7 million, and \$855.1 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$41.0 million, \$23.1 million, and \$33.3 million, respectively.

As of December 31, 2015, there was \$1.0 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 5.2 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,191,126,830 as of December 31, 2015. Total outstanding unvested phantom units were 39,296 as of December 31, 2015.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2015 and of changes during the period January 1, 2015 through December 31, 2015 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
			Deferred Restricted Common Units	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2014	33,498,237	\$ 26.19	17,569,372	\$ 16.95	1,455	\$ 31.95
Granted	28,861,922	37.91	5,655,007	32.98	16,928	34.03
Vested	(19,845,114)	29.48	(7,942,152)	17.62	(815)	32.62
Exchanged	—	—	(10,374)	28.23	10,374	28.23
Forfeited	(1,613,290)	23.31	(929,724)	24.82	—	—
Balance, December 31, 2015	<u>40,901,755</u>	\$ 32.98	<u>14,342,129</u>	\$ 22.38	<u>27,942</u>	\$ 28.79

Units Expected to Vest

The following unvested units, after expected forfeitures, as of December 31, 2015, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	33,675,366	4.4
Deferred Restricted Blackstone Common Units	12,386,848	1.9
Total Equity-Based Awards	<u>46,062,214</u>	<u>3.7</u>
Phantom Units	<u>19,495</u>	<u>3.8</u>



**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisers and phantom units (cash settled equity-based awards) to other senior and non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's common units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 9 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1.0% to 12.2% annually by employee class, and a per unit discount, ranging from \$0.01 to \$7.56. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

The phantom units vest over the assumed service period, which ranges from 1 to 6 years. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 6.9% to 12.2% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$1.1 million, \$1.1 million and \$0.6 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2015, 2014 and 2013, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to eight years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has accounted for the unvested Blackstone Holdings Partnership Units as compensation expense over the vesting period. The fair values have been derived based on the closing price of Blackstone's common units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone common unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 12.2%, based on historical experience.

In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payment to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units, (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone common units, there were no change in fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a four year period beginning August 2013, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$3.8 million.

**17. RELATED PARTY TRANSACTIONS**

**Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	December 31,	
	2015	2014
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 1,686	\$ 2,518
Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees Principally for Investments in Blackstone Funds	331,558	253,597
Amounts Due from Portfolio Companies and Funds	319,758	372,820
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	5,931	32,020
Management and Performance Fees Due from Non-Consolidated Funds	403,538	355,657
Payments Made on Behalf of Non-Consolidated Entities	178,326	111,796
	<u>\$ 1,240,797</u>	<u>\$ 1,128,408</u>
	December 31,	
	2015	2014
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,201,543	\$ 1,234,890
Accrual for Potential Repayment of Previously Received Performance Fees	3,356	3,889
Due to Note Holders of Consolidated CLO Vehicles	8,231	16,881
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	26,593	21,266
Payable to Affiliates for Consolidated Funds	—	22,447
Distributions Received on Behalf of Blackstone Entities	33,160	176,304
Payments Made by Non-Consolidated Entities	9,817	14,411
	<u>\$ 1,282,700</u>	<u>\$ 1,490,088</u>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of December 31, 2015 and 2014, such investments aggregated \$746.3 million and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated

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**Notes to Consolidated Financial Statements—Continued**  
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\$49.0 million, \$176.0 million and \$224.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$210.7 million, \$327.1 million and \$253.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

**Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees**

Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees Principally for Investments in Blackstone Funds includes interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These advances earn interest at Blackstone's cost of borrowing and such interest totaled \$5.0 million, \$2.9 million and \$3.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2015. See Note 18. "Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)".

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel make use of aircraft owned as personal assets by Stephen A. Schwarzman; an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone; and an aircraft owned jointly as a personal asset by Bennett J. Goodman, Co-Founder of GSO Capital and a Director of Blackstone, and another senior managing director (each such aircraft, "Personal Aircraft"). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft. Mr. Goodman paid for his interest in his jointly owned Personal Aircraft. Mr. Schwarzman, Mr. James, Mr. Gray and Mr. Goodman respectively bear operating, personnel and maintenance costs associated with the operation of such Personal Aircraft. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made based on market rates.

In addition, on occasion, certain of Blackstone's executive officers and employee directors and their families may make use of aircraft owned by Blackstone or in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Any such personal use of Blackstone assets is charged to the executive officer or employee director based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone based on market rates.

The transactions described herein are not material to the Consolidated Financial Statements.

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**Notes to Consolidated Financial Statements—Continued**  
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**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

Primarily, as a result of the October 1, 2015 spin-off, there was a reduction of \$82.7 million of the tax receivable agreement liability due to pre-IPO owners and the others mentioned above. Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$402.4 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. Subsequent to December 31, 2015, payments totaling \$79.0 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2014 taxable year.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the balance sheet date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Consolidated Statements of Cash Flows.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

Additionally, please see Note 18. "Commitments and Contingencies — Contingencies — Guarantees" for information regarding guarantees provided to a lending institution for certain loans held by employees.

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**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**18. COMMITMENTS AND CONTINGENCIES****Commitments***Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2032. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2015, 2014 and 2013, was \$112.0 million, \$97.2 million and \$78.6 million, respectively. At December 31, 2015 and 2014, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$15.7 million and \$8.5 million, respectively. As of December 31, 2015, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2016	\$ 75,076
2017	74,629
2018	72,207
2019	67,579
2020	63,407
Thereafter	490,835
<b>Total</b>	<b><u>\$843,733</u></b>

*Investment Commitments*

Blackstone had \$2.0 billion of investment commitments as of December 31, 2015 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$48.6 million as of December 31, 2015 which includes \$31.6 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies***Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$21.5 million as of December 31, 2015.

The Blackstone Holdings Partnerships provided guarantees to a lending institution for certain loans held by employees either for investment in Blackstone Funds or for members' capital contributions to Blackstone International Partners LLP. The amount guaranteed as of December 31, 2015 was \$126.2 million.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds, including available contemplated extensions, for which a liability for potential clawback obligations has been recorded for financial reporting purposes, are currently anticipated to expire at various points through 2028. Further extensions of such terms may be implemented under given circumstances. If, at December 31, 2015, all of the investments held by the carry funds were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be \$4.4 billion, on an after tax basis where applicable, of which \$4.1 billion related to Blackstone Holdings and \$370.5 million related to current and former Blackstone personnel.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The following table presents the clawback obligations by segment:

<u>Segment</u>	<u>December 31,</u>					
	<u>2015</u>			<u>2014</u>		
	<u>Blackstone Holdings</u>	<u>Current and Former Personnel</u>	<u>Total</u>	<u>Blackstone Holdings</u>	<u>Current and Former Personnel</u>	<u>Total</u>
Real Estate	\$ —	\$ —	\$ —	\$ 130	\$ 1,647	\$1,777
Credit	1,670	1,686	3,356	1,241	871	2,112
<b>Total</b>	<b>\$ 1,670</b>	<b>\$ 1,686</b>	<b>\$3,356</b>	<b>\$ 1,371</b>	<b>\$ 2,518</b>	<b>\$3,889</b>

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2015, \$582.7 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**19. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain administrative employees who are eligible for participation in the Plan, the Partnership makes a non-elective

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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contribution of 2% of such employee's annual compensation up to a maximum of one thousand six hundred dollars regardless of whether the employee makes any elective contributions to the Plan. In addition, the Partnership will also contribute 50% of certain eligible employee's contribution to the Plan with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2015, 2014 and 2013, the Partnership incurred expenses of \$2.0 million, \$1.9 million and \$1.7 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom ("U.K. Plan"). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee's annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2015, 2014 and 2013, the Partnership incurred expenses of \$0.8 million, \$0.7 million and \$0.4 million, respectively, in connection with the U.K. Plan.

**20. REGULATED ENTITIES**

The Partnership has a registered broker-dealer that is subject to the minimum net capital requirements of the United States Securities and Exchange Commission ("SEC"). This entity has continuously operated in excess of these requirements. The Partnership also has certain entities based in London, Hong Kong and Ireland, which are subject to the capital requirements of the Financial Conduct Authority, the Securities & Future Commission and the Central Bank of Ireland, respectively. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities that are registered as investment advisers with the SEC.

The regulatory capital requirements referred to above may restrict the Partnership's ability to withdraw capital from its entities. At December 31, 2015, \$24.8 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**21. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management businesses through four segments:

- Private Equity — Blackstone's Private Equity segment comprises its management of private equity funds, certain opportunistic investment funds and secondary private funds of funds.
- Real Estate — Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds as well as core+ funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Hedge Fund Solutions — Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"), which manages a broad range of commingled and customized hedge fund of fund solutions. The Hedge Fund Solutions business also includes investment platforms that seed new hedge fund talent, purchase ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade long and short public equities.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- Credit — Blackstone’s Credit segment, which consists principally of GSO Capital Partners LP (“GSO”), manages credit-focused products within private and public debt market strategies. GSO’s products include senior credit-focused funds, mezzanine funds, distressed debt funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management.

Blackstone uses Economic Income (“EI”) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone’s IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income (“ENI”) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Management makes operating decisions and assesses the performance of each of Blackstone’s business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

On October 1, 2015, Blackstone completed the previously-announced spin-off of the operations that historically constituted Blackstone’s Financial Advisory segment, other than Blackstone’s capital markets services business. Blackstone’s capital markets services business was retained and was not part of the spin-off. The financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses were spun-off from Blackstone and combined with PJT Capital LP, an independent financial advisory firm founded by Paul J. Taubman, to form an independent, publicly traded company called PJT Partners Inc. Each common unitholder of Blackstone received one share of Class A common stock of PJT Partners Inc. for every 40 common units of Blackstone held by such unitholder on the record date. The historical Financial Advisory segment comprised financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provided fund placement services for alternative investment funds. As of October 1, 2015, Blackstone no longer reports a Financial Advisory segment. Results of the Financial Advisory segment are included herein for comparative purposes only. As a result of the spin-off on October 1, 2015 of Blackstone’s Financial Advisory business, which did not include Blackstone’s capital markets services business, the result of Blackstone’s capital markets services business were reclassified from the Financial Advisory segment to the Private Equity segment. All prior periods have been recast to reflect this reclassification.



**THE BLACKSTONE GROUP L.P.**
**Notes to Consolidated Financial Statements—Continued**
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table presents the financial data for Blackstone's four segments as of and for the years ended December 31, 2015, 2014 and 2013. As a result of the spin-off on October 1, 2015, the former Financial Advisory segment no longer reports results. The historical Financial Advisory information is included for comparative purposes.

	December 31, 2015 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 502,640	\$ 668,575	\$ 524,386	\$ 500,982	\$ —	\$ 2,196,583
Advisory Fees	10,561	—	—	—	297,570	308,131
Transaction and Other Fees, Net	36,258	110,577	317	6,371	162	153,685
Management Fee Offsets	(36,760)	(26,840)	171	(30,065)	—	(93,494)
Total Management and Advisory Fees, Net	<u>512,699</u>	<u>752,312</u>	<u>524,874</u>	<u>477,288</u>	<u>297,732</u>	<u>2,564,905</u>
Performance Fees						
Realized						
Carried Interest	1,474,987	1,634,733	—	96,156	—	3,205,876
Incentive Fees	—	17,153	68,197	109,396	—	194,746
Unrealized						
Carried Interest	(717,955)	(680,542)	2,021	(198,820)	—	(1,595,296)
Incentive Fees	—	20,802	(8,084)	(19,967)	—	(7,249)
Total Performance Fees	<u>757,032</u>	<u>992,146</u>	<u>62,134</u>	<u>(13,235)</u>	<u>—</u>	<u>1,798,077</u>
Investment Income (Loss)						
Realized	189,649	235,582	(12,741)	7,186	(868)	418,808
Unrealized	(116,338)	(231,889)	(1,435)	(16,258)	(39)	(365,959)
Total Investment Income (Loss)	<u>73,311</u>	<u>3,693</u>	<u>(14,176)</u>	<u>(9,072)</u>	<u>(907)</u>	<u>52,849</u>
Interest and Dividend Revenue	33,218	43,990	17,274	24,599	12,520	131,601
Other	5,854	(1,422)	200	5,171	(1,303)	8,500
Total Revenues	<u>1,382,114</u>	<u>1,790,719</u>	<u>590,306</u>	<u>484,751</u>	<u>308,042</u>	<u>4,555,932</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	280,248	358,381	179,484	190,189	180,917	1,189,219
Performance Fee Compensation						
Realized						
Carried Interest	256,922	484,037	—	52,841	—	793,800
Incentive Fees	—	8,678	27,155	50,113	—	85,946
Unrealized						
Carried Interest	(10,172)	(196,347)	823	(107,000)	—	(312,696)
Incentive Fees	—	8,817	(2,912)	(8,395)	—	(2,490)
Total Compensation and Benefits	<u>526,998</u>	<u>663,566</u>	<u>204,550</u>	<u>177,748</u>	<u>180,917</u>	<u>1,753,779</u>
Other Operating Expenses	199,158	179,175	90,072	93,626	62,326	624,357
Total Expenses	<u>726,156</u>	<u>842,741</u>	<u>294,622</u>	<u>271,374</u>	<u>243,243</u>	<u>2,378,136</u>
Economic Income	<u>\$ 655,958</u>	<u>\$ 947,978</u>	<u>\$ 295,684</u>	<u>\$ 213,377</u>	<u>\$ 64,799</u>	<u>\$ 2,177,796</u>
Segment Assets	<u>\$5,680,315</u>	<u>\$7,456,507</u>	<u>\$1,916,956</u>	<u>\$2,725,585</u>	<u>\$ —</u>	<u>\$ 17,779,363</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2014 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 415,841	\$ 628,502	\$ 482,981	\$ 460,205	\$ —	\$ 1,987,529
Advisory Fees	21,903	—	—	—	398,942	420,845
Transaction and Other Fees, Net	135,718	91,610	569	18,161	379	246,437
Management Fee Offsets	(19,146)	(34,443)	(5,014)	(28,168)	—	(86,771)
Total Management and Advisory Fees, Net	<u>554,316</u>	<u>685,669</u>	<u>478,536</u>	<u>450,198</u>	<u>399,321</u>	<u>2,568,040</u>
Performance Fees						
Realized						
Carried Interest	754,402	1,487,762	—	208,432	—	2,450,596
Incentive Fees	—	11,499	140,529	109,717	—	261,745
Unrealized						
Carried Interest	1,222,828	524,046	—	(37,913)	—	1,708,961
Incentive Fees	—	(5,521)	(879)	(23,025)	—	(29,425)
Total Performance Fees	<u>1,977,230</u>	<u>2,017,786</u>	<u>139,650</u>	<u>257,211</u>	<u>—</u>	<u>4,391,877</u>
Investment Income (Loss)						
Realized	202,719	309,095	21,550	9,354	707	543,425
Unrealized	(23,914)	(58,930)	5,132	5,055	860	(71,797)
Total Investment Income	<u>178,805</u>	<u>250,165</u>	<u>26,682</u>	<u>14,409</u>	<u>1,567</u>	<u>471,628</u>
Interest and Dividend Revenue	21,993	30,197	11,114	23,040	10,000	96,344
Other	6,569	2,863	1,855	(2,310)	428	9,405
Total Revenues	<u>2,738,913</u>	<u>2,986,680</u>	<u>657,837</u>	<u>742,548</u>	<u>411,316</u>	<u>7,537,294</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	280,499	326,317	131,658	188,200	226,837	1,153,511
Performance Fee Compensation						
Realized						
Carried Interest	266,393	432,996	—	116,254	—	815,643
Incentive Fees	—	5,980	42,451	61,668	—	110,099
Unrealized						
Carried Interest	210,446	197,174	—	(28,583)	—	379,037
Incentive Fees	—	(2,751)	(273)	(16,252)	—	(19,276)
Total Compensation and Benefits	<u>757,338</u>	<u>959,716</u>	<u>173,836</u>	<u>321,287</u>	<u>226,837</u>	<u>2,439,014</u>
Other Operating Expenses	143,562	146,083	86,129	90,524	87,484	553,782
Total Expenses	<u>900,900</u>	<u>1,105,799</u>	<u>259,965</u>	<u>411,811</u>	<u>314,321</u>	<u>2,992,796</u>
Economic Income	<u>\$1,838,013</u>	<u>\$1,880,881</u>	<u>\$ 397,872</u>	<u>\$ 330,737</u>	<u>\$ 96,995</u>	<u>\$ 4,544,498</u>
Segment Assets	<u>\$6,134,869</u>	<u>\$8,032,854</u>	<u>\$1,472,992</u>	<u>\$2,592,313</u>	<u>\$ 866,595</u>	<u>\$ 19,099,623</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2013 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 368,146	\$ 565,182	\$ 409,321	\$ 398,158	\$ —	\$ 1,740,807
Advisory Fees	24,313	—	—	—	386,201	410,514
Transaction and Other Fees, Net	97,678	79,675	623	28,586	415	206,977
Management Fee Offsets	(5,683)	(22,821)	(3,387)	(40,329)	—	(72,220)
Total Management and Advisory Fees, Net	<u>484,454</u>	<u>622,036</u>	<u>406,557</u>	<u>386,415</u>	<u>386,616</u>	<u>2,286,078</u>
Performance Fees						
Realized						
Carried Interest	329,993	486,773	—	127,192	—	943,958
Incentive Fees	—	45,862	207,735	220,736	—	474,333
Unrealized						
Carried Interest	398,232	1,651,700	—	108,078	—	2,158,010
Incentive Fees	—	(28,753)	7,718	1,107	—	(19,928)
Total Performance Fees	<u>728,225</u>	<u>2,155,582</u>	<u>215,453</u>	<u>457,113</u>	<u>—</u>	<u>3,556,373</u>
Investment Income (Loss)						
Realized	88,026	52,359	27,613	4,098	(1,625)	170,471
Unrealized	161,749	350,201	(9,306)	13,951	739	517,334
Total Investment Income (Loss)	<u>249,775</u>	<u>402,560</u>	<u>18,307</u>	<u>18,049</u>	<u>(886)</u>	<u>687,805</u>
Interest and Dividend Revenue	15,625	21,563	7,605	18,146	7,997	70,936
Other	4,259	3,384	688	527	1,450	10,308
Total Revenues	<u>1,482,338</u>	<u>3,205,125</u>	<u>648,610</u>	<u>880,250</u>	<u>395,177</u>	<u>6,611,500</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	240,150	294,222	136,470	186,514	258,284	1,115,640
Performance Fee Compensation						
Realized						
Carried Interest	38,953	148,837	—	69,411	—	257,201
Incentive Fees	—	23,878	65,793	111,244	—	200,915
Unrealized						
Carried Interest	342,733	566,837	—	57,147	—	966,717
Incentive Fees	—	(15,015)	2,856	508	—	(11,651)
Total Compensation and Benefits	<u>621,836</u>	<u>1,018,759</u>	<u>205,119</u>	<u>424,824</u>	<u>258,284</u>	<u>2,528,822</u>
Other Operating Expenses	124,499	116,391	66,966	96,940	81,843	486,639
Total Expenses	<u>746,335</u>	<u>1,135,150</u>	<u>272,085</u>	<u>521,764</u>	<u>340,127</u>	<u>3,015,461</u>
Economic Income	<u>\$ 736,003</u>	<u>\$ 2,069,975</u>	<u>\$ 376,525</u>	<u>\$ 358,486</u>	<u>\$ 55,050</u>	<u>\$ 3,596,039</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table reconciles the Total Segments to Blackstone’s Income Before Provision for Taxes and Total Assets as of and for the years ended December 31, 2015, 2014 and 2013:

	<b>December 31, 2015 and the Year Then Ended</b>		
	<b>Total Segments</b>	<b>Consolidation Adjustments and Reconciling Items</b>	<b>Blackstone Consolidated</b>
Revenues	\$ 4,555,932	\$ 90,620(a)	\$ 4,646,552
Expenses	\$ 2,378,136	\$ 712,739(b)	\$ 3,090,875
Other Income	\$ —	\$ 259,071(c)	\$ 259,071
Economic Income	\$ 2,177,796	\$ (363,048)(d)	\$ 1,814,748
Total Assets	\$17,779,363	\$ 4,746,717(e)	\$22,526,080

	<b>December 31, 2014 and the Year Then Ended</b>		
	<b>Total Segments</b>	<b>Consolidation Adjustments and Reconciling Items</b>	<b>Blackstone Consolidated</b>
Revenues	\$ 7,537,294	\$ (52,566)(a)	\$ 7,484,728
Expenses	\$ 2,992,796	\$ 863,060(b)	\$ 3,855,856
Other Income	\$ —	\$ 357,854(c)	\$ 357,854
Economic Income	\$ 4,544,498	\$ (557,772)(d)	\$ 3,986,726
Total Assets	\$19,099,623	\$ 12,397,474(e)	\$31,497,097

	<b>Year Ended December 31, 2013</b>		
	<b>Total Segments</b>	<b>Consolidation Adjustments and Reconciling Items</b>	<b>Blackstone Consolidated</b>
Revenues	\$6,611,500	\$ 1,668(a)	\$6,613,168
Expenses	\$3,015,461	\$ 851,279(b)	\$3,866,740
Other Income	\$ —	\$ 402,133(c)	\$ 402,133
Economic Income	\$3,596,039	\$ (447,478)(d)	\$3,148,561

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues and non-segment related Investment Income, which is included in Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (c) The Other Income adjustment results from the following:

	Year Ended December 31,		
	2015	2014	2013
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$(100,657)	\$ 52,219	\$ (5,575)
Fund Expenses Added in Consolidation	48,239	19,169	30,727
Non-Controlling Interests in Income of Consolidated Entities	231,045	409,864	381,872
Transaction-Related Other Income (Loss)	80,444	(123,398)	(4,891)
Total Consolidation Adjustments and Reconciling Items	<u>\$ 259,071</u>	<u>\$ 357,854</u>	<u>\$402,133</u>

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2015	2014	2013
Economic Income	<u>\$ 2,177,796</u>	<u>\$ 4,544,498</u>	<u>\$ 3,596,039</u>
Adjustments			
Amortization of Intangibles	(104,530)	(111,254)	(106,643)
IPO and Acquisition-Related Charges	(489,563)	(856,382)	(722,707)
Non-Controlling Interests in Income of Consolidated Entities	231,045	409,864	381,872
Total Consolidation Adjustments and Reconciling Items	<u>(363,048)</u>	<u>(557,772)</u>	<u>(447,478)</u>
Income Before Provision for Taxes	<u>\$ 1,814,748</u>	<u>\$ 3,986,726</u>	<u>\$ 3,148,561</u>

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

## 22. SUBSEQUENT EVENTS

There have been no events since December 31, 2015 that require recognition or disclosure in the Consolidated Financial Statements.

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued

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

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2015 (a)	June 30, 2015	September 30, 2015	December 31, 2015
Revenues	\$2,512,358	\$1,225,202	\$ 11,573	\$ 897,419
Expenses	1,142,568	914,432	476,997	556,878
Other Income (Loss)	93,555	82,015	(16,867)	100,368
Income (Loss) Before Provision for Taxes	\$1,463,345	\$ 392,785	\$ (482,291)	\$ 440,909
Net Income (Loss)	\$1,364,001	\$ 349,534	\$ (483,864)	\$ 394,679
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 629,448	\$ 134,168	\$ (254,697)	\$ 200,870
Net Income (Loss) Per Common Unit				
Common Units, Basic	\$ 1.01	\$ 0.21	\$ (0.40)	\$ 0.31
Common Units, Diluted	\$ 1.00	\$ 0.21	\$ (0.40)	\$ 0.23
Distributions Declared (b)	\$ 0.78	\$ 0.89	\$ 0.74	\$ 0.49

	Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	\$1,526,668	\$2,257,860	\$ 1,679,426	\$ 2,020,774
Expenses	887,851	1,089,781	1,055,138	823,086
Other Income	70,155	138,585	8,682	140,432
Income Before Provision for Taxes	\$ 708,972	\$1,306,664	\$ 632,970	\$ 1,338,120
Net Income	\$ 654,875	\$1,223,382	\$ 553,862	\$ 1,263,434
Net Income Attributable to The Blackstone Group L.P.	\$ 265,617	\$ 517,016	\$ 250,505	\$ 551,451
Net Income Per Common Unit				
Common Units, Basic	\$ 0.44	\$ 0.85	\$ 0.41	\$ 0.90
Common Units, Diluted	\$ 0.44	\$ 0.85	\$ 0.41	\$ 0.89
Distributions Declared (b)	\$ 0.58	\$ 0.35	\$ 0.55	\$ 0.44

- (a) Blackstone adopted new GAAP consolidation guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. Adoption did not change Net Income Attributable to The Blackstone Group L.P. for the quarter ended March 31, 2015, but did change Revenues, Expenses, Other Income (Loss), Income (Loss) Before Provision for Taxes and Net Income (Loss). Such amounts have been recast here from the amounts originally reported for the quarter ended March 31, 2015.
- (b) Distributions declared reflects the calendar date of the declaration of each distribution.

## ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
**(Dollars in Thousands)**

	December 31, 2015			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclassifies and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,837,324	\$ —	\$ —	\$ 1,837,324
Cash Held by Blackstone Funds and Other	148,660	438,472	—	587,132
Investments	10,186,419	4,591,465	(453,787)	14,324,097
Accounts Receivable	461,610	151,543	—	613,153
Reverse Repurchase Agreements	204,893	—	—	204,893
Due from Affiliates	1,224,692	25,722	(9,617)	1,240,797
Intangible Assets, Net	345,547	—	—	345,547
Goodwill	1,718,519	—	—	1,718,519
Other Assets	374,270	2,919	—	377,189
Deferred Tax Assets	1,277,429	—	—	1,277,429
<b>Total Assets</b>	<b>\$17,779,363</b>	<b>\$5,210,121</b>	<b>\$ (463,404)</b>	<b>\$22,526,080</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 2,797,060	\$3,319,687	\$ —	\$ 6,116,747
Due to Affiliates	1,244,748	50,892	(12,940)	1,282,700
Accrued Compensation and Benefits	2,029,900	18	—	2,029,918
Securities Sold, Not Yet Purchased	99,392	77,275	—	176,667
Repurchase Agreements	970	39,959	—	40,929
Accounts Payable, Accrued Expenses and Other Liabilities	422,905	225,757	—	648,662
<b>Total Liabilities</b>	<b>6,594,975</b>	<b>3,713,588</b>	<b>(12,940)</b>	<b>10,295,623</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>—</b>	<b>183,459</b>	<b>—</b>	<b>183,459</b>
<b>Partners' Capital</b>				
Partners' Capital	6,323,025	450,417	(451,135)	6,322,307
Accumulated Other Comprehensive Income	(53,190)	—	671	(52,519)
Non-Controlling Interests in Consolidated Entities	1,546,044	862,657	—	2,408,701
Non-Controlling Interests in Blackstone Holdings	3,368,509	—	—	3,368,509
<b>Total Partners' Capital</b>	<b>11,184,388</b>	<b>1,313,074</b>	<b>(450,464)</b>	<b>12,046,998</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$17,779,363</b>	<b>\$5,210,121</b>	<b>\$ (463,404)</b>	<b>\$22,526,080</b>

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
**(Dollars in Thousands)**

	December 31, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,412,472	\$ —	\$ —	\$ 1,412,472
Cash Held by Blackstone Funds and Other	348,957	1,459,135	—	1,808,092
Investments	12,123,708	11,835,242	(1,193,361)	22,765,589
Accounts Receivable	364,927	194,394	—	559,321
Reverse Repurchase Agreements	—	—	—	—
Due from Affiliates	1,060,831	723,285	(655,708)	1,128,408
Intangible Assets, Net	458,833	—	—	458,833
Goodwill	1,787,392	—	—	1,787,392
Other Assets	276,476	48,284	—	324,760
Deferred Tax Assets	1,252,230	—	—	1,252,230
<b>Total Assets</b>	<b>\$ 19,085,826</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,497,097</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 2,136,706	\$ 6,787,135	\$ —	\$ 8,923,841
Due to Affiliates	1,289,552	1,350,911	(1,150,375)	1,490,088
Accrued Compensation and Benefits	2,439,257	—	—	2,439,257
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
Repurchase Agreements	—	29,907	—	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	430,712	763,867	—	1,194,579
<b>Total Liabilities</b>	<b>6,296,227</b>	<b>9,017,698</b>	<b>(1,150,375)</b>	<b>14,163,550</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>—</b>	<b>2,441,854</b>	<b>—</b>	<b>2,441,854</b>
<b>Partners' Capital</b>				
Partners' Capital	6,999,830	698,694	(698,694)	6,999,830
Appropriated Partners' Capital	—	81,301	—	81,301
Accumulated Other Comprehensive Income	(21,932)	1,068	—	(20,864)
Non-Controlling Interests in Consolidated Entities	1,395,631	2,019,725	—	3,415,356
Non-Controlling Interests in Blackstone Holdings	4,416,070	—	—	4,416,070
<b>Total Partners' Capital</b>	<b>12,789,599</b>	<b>2,800,788</b>	<b>(698,694)</b>	<b>14,891,693</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 19,085,826</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,497,097</b>

(a) The Consolidated Blackstone Funds consisted of the following:

- Blackstone AG Investment Partners L.P.\*
- Blackstone Distressed Securities Fund L.P.\*
- Blackstone Market Opportunities Fund L.P.\*
- Blackstone Real Estate Partners VI.C — ESH L.P.
- Blackstone Real Estate Special Situations Fund L.P.
- Blackstone Real Estate Special Situations Offshore Fund Ltd.
- Blackstone Strategic Alliance Fund II L.P.\*
- Blackstone Strategic Alliance Fund L.P.



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Blackstone Strategic Capital Holdings B L.P.\*  
Blackstone Strategic Capital Holdings L.P.\*  
Blackstone Strategic Equity Fund L.P.\*  
Blackstone Value Recovery Fund L.P.\*  
Blackstone/GSO Loan Financing Limited  
Blackstone/GSO Secured Trust Ltd.\*  
BREP Edens Investment Partners L.P.\*  
BSSF I AIV L.P.  
BTD CP Holdings, LP  
GSO Legacy Associates II LLC  
GSO Legacy Associates LLC  
Shanghai Blackstone Equity Investment Partnership L.P.\*  
Private equity side-by-side investment vehicles  
Real estate side-by-side investment vehicles  
Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles

\* Consolidated as of December 31, 2014 only.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a — 15(f) and 15d — 15(f) under the Securities Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Management’s Report on Internal Control Over Financial Reporting**

Management of The Blackstone Group L.P. and subsidiaries (“Blackstone”) is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone’s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Blackstone’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone’s assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone’s internal control over financial reporting as of December 31, 2015 based on the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Blackstone’s internal control over financial reporting as of December 31, 2015 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone’s financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone’s internal control over financial reporting as of December 31, 2015, which is included herein.

## **ITEM 9B. OTHER INFORMATION**

### **Section 13(r) Disclosure**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (“ITRA”), which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2015, August 6, 2015 and November 5, 2015 as well as Exhibit 99.1 of this Annual Report on Form 10-K, which includes disclosures publicly filed and/or provided to us by Travelport Limited, which may be considered our affiliate.

## PART III.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors and Executive Officers of Blackstone Group Management L.L.C.

The directors and executive officers of Blackstone Group Management L.L.C. as of the date of this filing, are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen A. Schwarzman	69	Founder, Chairman and Chief Executive Officer and Director
Hamilton E. James	65	President, Chief Operating Officer and Director
J. Tomilson Hill	67	Vice Chairman and Director
Bennett J. Goodman	58	Co-Founder of GSO Capital Partners and Director
Jonathan D. Gray	46	Global Head of Real Estate and Director
Michael S. Chae	47	Chief Financial Officer
John G. Finley	59	Chief Legal Officer
Joan Solotar	51	Senior Managing Director — Head of Multi-Asset Investing and External Relations
Peter T. Grauer	70	Director
Richard H. Jenrette	86	Director
Rochelle B. Lazarus	68	Director
Jay O. Light	74	Director
The Right Honorable Brian Mulroney	76	Director
William G. Parrett	70	Director

**Stephen A. Schwarzman** is the Chairman and Chief Executive Officer of Blackstone and the Chairman of the board of directors of our general partner. Mr. Schwarzman was elected Chairman of the board of directors of our general partner effective March 20, 2007. He also sits on the firm's Management Committee. Mr. Schwarzman is a founder of Blackstone and has been involved in all phases of the firm's development since its founding in 1985. Mr. Schwarzman began his career at Lehman Brothers, where he was elected Managing Director in 1978. He was engaged principally in the firm's mergers and acquisitions business from 1977 to 1984, and served as Chairman of the firm's Mergers & Acquisitions Committee in 1983 and 1984. Mr. Schwarzman is an active philanthropist with a history of supporting education and schools. Whether in business or in philanthropy, he has always attempted to tackle big problems and find transformative solutions. In 2015, Mr. Schwarzman donated \$150 million to Yale University to establish the Schwarzman Center, a first-of-its-kind campus center in Yale's historic "Commons" building. In 2013, he founded an international scholarship program, "Schwarzman Scholars," at Tsinghua University in Beijing to educate future leaders about China. At \$450 million, the program is modeled on the Rhodes Scholarship and is the single largest philanthropic effort in China's history coming largely from international donors. In 2007, Mr. Schwarzman donated \$100 million to the New York Public Library on whose board he serves. Mr. Schwarzman is a member of The Council on Foreign Relations, The Business Council, The Business Roundtable, and The International Business Council of the World Economic Forum. He is co-chair of the Partnership for New York City and serves on the boards of The Asia Society and New York Presbyterian Hospital, as well as on The Advisory Board of the School of Economics and Management at Tsinghua University, Beijing. He is a Trustee of The Frick Collection in New York City and Chairman Emeritus of the Board of Directors of The John F. Kennedy Center for the Performing Arts. In 2007, Mr. Schwarzman was included in TIME's "100 Most Influential People." Mr. Schwarzman was awarded the Légion d'Honneur of France in 2007 and promoted to Officier in 2010. Mr. Schwarzman holds a BA from Yale University and an MBA from Harvard Business School. He has served as an adjunct professor at the Yale School of Management and on the Harvard Business School Board of Dean's Advisors.

**Hamilton E. James** is President and Chief Operating Officer of Blackstone and a member of the board of directors of our general partner. Mr. James was elected to the board of directors of our general partner effective March 20, 2007. He is also a member of Blackstone's Management Committee and sits on each of the firm's

investment committees. Prior to joining Blackstone in 2002, Mr. James was Chairman of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of its Executive Board. Prior to the acquisition of Donaldson, Lufkin & Jenrette (DLJ) by Credit Suisse First Boston in 2000, Mr. James was the Chairman of DLJ's Banking Group, responsible for all the firm's investment banking and merchant banking activities. Mr. James joined DLJ in 1975 as an Investment Banking associate. He became head of DLJ's global mergers and acquisitions group in 1982, founded DLJ Merchant Banking, Inc. in 1985, and was named Chairman of the Banking Group in 1995. Mr. James is a Director of Costco Wholesale Corporation and has served on a number of other corporate boards. Mr. James is a Commissioner of The Port Authority of New York and New Jersey, a Trustee of The Metropolitan Museum of Art, member of The Boards of Trustees of Mount Sinai Health System, member of The Center for American Progress Board of Trustees, Vice Chairman of Trout Unlimited's Coldwater Conservations Fund, Trustee of Woods Hole Oceanographic Institution, Advisory Board Member of the Montana Land Reliance, Trustee of the Wildlife Conservation Society and Chairman Emeritus of the Board of Trustees of American Ballet Theatre. He is also a former member of the President's Export Council — Subcommittee on Technology & Competitiveness. Mr. James received a BA from Harvard College and an MBA from Harvard Business School.

**J. Tomilson Hill** is President and Chief Executive Officer of BAAM, a Vice Chairman of Blackstone and a member of the board of directors of our general partner. Mr. Hill was elected to the board of directors of our general partner effective March 20, 2007. He also sits on the firm's Management Committee. Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role as Chief Executive Officer of BAAM. In his current capacity, Mr. Hill is responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of its Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc. Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee and serves on the Council's Board of Directors, and is a member of the Board of Directors of Lincoln Center Theater, where he is Chairman. He serves on the Board of The Metropolitan Museum of Art, the Telluride Foundation, the Advantage Testing Foundation, and of Our Lady Queen of Angels School, a parochial school (K-8th grade) in Spanish Harlem. He is a member of the Advisory Board of Christie's and a member of the Board of Directors of OpenPeak Inc. and Advantage Testing, Inc.

**Bennett J. Goodman** is a Co-Founder of GSO and a member of the board of directors of our general partner. Mr. Goodman was elected to the board of directors of our general partner effective February 24, 2015. He also sits on the firm's Management Committee. Since joining Blackstone in 2008, Mr. Goodman has focused on the management of GSO, which is Blackstone's credit investment platform with over \$75 billion of assets under management in various direct lending strategies, leveraged loan vehicles and distressed investment funds. Before co-founding GSO in 2005, Mr. Goodman was the Managing Partner of the Alternative Capital Division of Credit Suisse. Mr. Goodman joined Credit Suisse in November 2000 when they acquired Donaldson, Lufkin & Jenrette, or DLJ where he was Global Head of Leveraged Finance. Mr. Goodman joined DLJ in February of 1988 as the founder of the High Yield Capital Markets Group. Prior to joining DLJ, Mr. Goodman worked in the high yield business at Drexel Burnham Lambert from 1984 to 1988. Mr. Goodman is currently on the Board of Directors of Lincoln Center and the Central Park Conservancy. Mr. Goodman received Institutional Investor's 2012 Money Manager of The Year Award. He also received the 2004 Lifetime Achievement Award from Euromoney Magazine for his career achievements in the global capital markets. He graduated from Lafayette College and the Harvard Business School.

**Jonathan D. Gray** is Global Head of Real Estate and a member of the board of directors of our general partner. Mr. Gray was elected to the board of directors of our general partner effective February 24, 2012. He also sits on the firm's Management Committee. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with \$94 billion in investor capital under management. Blackstone's portfolio includes hotel,

office, retail, industrial and residential properties in the U.S., Europe, Asia and Latin America. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania, where he graduated magna cum laude and was elected to Phi Beta Kappa. He currently serves as Chairman of the Board of Hilton Worldwide and is a board member of Brixmor Properties and Nevada Property 1 LLC (The Cosmopolitan of Las Vegas). He is also Chairman of the Board of Harlem Village Academies and a board member of Trinity School. Mr. Gray and his wife, Mindy, established the Bassler Center for BRCA at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused cancers.

**Michael S. Chae** is Blackstone's Chief Financial Officer and a member of the firm's Management Committee. Mr. Chae has management responsibility over the firm's global finance, treasury, technology and corporate development functions. Since joining Blackstone in 1997, Mr. Chae has served in a broad range of leadership roles including Head of International Private Equity, from 2012 through 2015, Head of Private Equity for Asia/Pacific, from 2011 through 2015, and overseeing Private Equity investments in various sectors and the investment process for Tactical Opportunities. Mr. Chae led or was involved in numerous Blackstone investments over that time period. Before joining Blackstone, Mr. Chae worked at The Carlyle Group, L.P. and prior to that with Dillon, Read & Co. Mr. Chae received an AB from Harvard College, an MPhil. in International Relations from Cambridge University and a JD from Yale Law School. He has served on numerous boards of private and publicly traded portfolio companies. Mr. Chae is a member of the Board of Trustees of the Lawrenceville School and Chairman of its Investment Committee, and a member of the Council on Foreign Relations and the Board of Trustees of the Asia Society.

**John G. Finley** is Chief Legal Officer of Blackstone and a member of the firm's Management Committee. Before joining Blackstone in 2010, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years where he was most recently a member of that law firm's Executive Committee and Head of Global Mergers & Acquisitions. Mr. Finley is a member of the Advisory Board of the Harvard Law School Program on Corporate Governance, the National Advisory Board of the Netter Center for Community Partnerships of the University of Pennsylvania and the Board of Advisors of the University of Pennsylvania Institute of Law and Economics. He is also a guest lecturer at Harvard Law School and Penn Law School. He has served on the Committee of Securities Regulation of the New York State Bar Association, the Board of Advisors of the Knight-Bagehot Fellowship in Economics and Business Journalism at Columbia University and as a Trustee of the Jewish Board of Family and Children Services. He has also served as Chairman of the Annual International Mergers & Acquisitions Conference of the International Bar Association. Mr. Finley received a BS in Economics from the Wharton School of the University of Pennsylvania, a BA in History from the College of Arts and Sciences of the University of Pennsylvania, and a JD from Harvard Law School.

**Joan Solotar** is a Senior Managing Director, Head of Multi-Asset Investing and External Relations and a member of the firm's Management Committee. Ms. Solotar oversees the firm's Multi-Asset Investing business, which develops and distributes products and services to meet the needs of institutional and high net worth clients. Additionally, she manages global shareholder relations, public affairs and corporate services. Before joining Blackstone in 2007, Ms. Solotar was with Bank of America Securities where she was a Managing Director and Head of Equity Research. Prior to joining Bank of America, she was a consistently highly ranked Institutional Investor "All-American Research Team" financial services analyst at Donaldson, Lufkin & Jenrette and Credit Suisse First Boston as a Managing Director. Ms. Solotar chairs the Board of Directors of Blackstone's Charitable Foundation and is Chairman of the Board of Trustees of the East Harlem Tutorial Program and the East Harlem Scholars Academies. She is the recent author of a Harvard Business Review article entitled "Truths for our Daughters." Ms. Solotar received a BS in Management Information Systems at the State University of New York at Albany and an MBA in Finance at New York University.

**Peter T. Grauer** is a member of the board of directors of our general partner. Mr. Grauer was elected to the board of directors of our general partner effective January 26, 2016. Mr. Grauer is Chairman of Bloomberg L.P., a global financial information and media company. A member of the board of Bloomberg L.P. since 1996, Mr. Grauer

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became Chairman in 2001, and then Chairman, President and Chief Executive Officer in March 2002. Prior to joining Bloomberg L.P., Mr. Grauer was managing director and senior partner at Credit Suisse First Boston from 2000 to 2002, founding both DLJ Merchant Banking Partners and DLJ Investment Partners. He was managing director of Donaldson, Lufkin & Jenrette (DLJ) from 1992 until Credit Suisse First Boston acquired it in 2000. Mr. Grauer serves as lead director of DaVita Health Care Partners, Inc. and Senior Independent Non-Executive Director of Glencore. He is a member of the Business Council, the Asia Business Council, the International Business Council of the World Economic Forum and Founding Chairman of the World Economic Forum Community of Chairmen. Mr. Grauer is also President of the Inner City Scholarship Fund Board of Trustees, Chairman of the Rockefeller Finance & Operations Committee, Chair of the College Advising Corps, and a board member of Room to Read and the Prostate Cancer Foundation. He is Founding U.S. Chair of the 30% Club, a Member of the Advisory Council of Out on the Street, and the McKinsey Advisory Council.

**Richard H. Jenrette** is a member of the board of directors of our general partner. Mr. Jenrette was elected to the board of directors of our general partner effective July 14, 2008. Mr. Jenrette is the retired former Chairman and Chief Executive Officer of The Equitable Companies Incorporated and the co-founder and retired Chairman and Chief Executive Officer of Donaldson, Lufkin & Jenrette (DLJ). He is also a former Chairman of The Securities Industry Association and has served in the past as a director or trustee of The McGraw-Hill Companies, Advanced Micro Devices Inc., the American Stock Exchange, The Rockefeller Foundation, The Duke Endowment, the University of North Carolina, New York University and The National Trust for Historic Preservation.

**Rochelle B. Lazarus** is a member of the board of directors of our general partner. Ms. Lazarus was elected to the board of directors of our general partner effective July 9, 2013. Ms. Lazarus is Chairman Emeritus of Ogilvy & Mather and served as Chairman of that company from 1997 to June 2012. Prior to becoming Chief Executive Officer and Chairman, she also served as president of O&M Direct North America, Ogilvy & Mather New York, and Ogilvy & Mather North America. Ms. Lazarus currently serves on the boards of Merck & Co., Inc., General Electric (where she chairs the Governance and Public Affairs Committee), the Financial Industry Regulatory Authority (FINRA), World Wildlife Fund, Defense Business Board, Lincoln Center for the Performing Arts and the Partnership for New York City. She is a trustee of the New York Presbyterian Hospital and is a member of the Board of Overseers of Columbia Business School. She is also a member of the Council on Foreign Relations, The Women's Forum, Inc. and The Business Council.

**Jay O. Light** is a member of the board of directors of our general partner. Mr. Light was elected to the board of directors of our general partner effective September 18, 2008. Mr. Light is the Dean Emeritus of Harvard Business School and the George F. Baker Professor of Administration Emeritus. Prior to that, Mr. Light was the Dean of Harvard Business School from 2006 to 2010. Before becoming the Dean of Harvard Business School, Mr. Light was Senior Associate Dean, Chairman of the Finance Area, and a professor teaching Investment Management, Capital Markets, and Entrepreneurial Finance for 30 years. Mr. Light is the Chairman of the Board of Directors of HCA Holdings, Inc., a director of the Harvard Management Company, a director of Partners HealthCare (the Mass General and Brigham & Women's Hospitals) and chairman of its Investment Committee, a member of the Investment Committee of several endowments, a director of several private firms, and an advisor/trustee to several corporate and institutional pools of capital. In prior years until 2008, Mr. Light was a Trustee of the GMO Trusts, a family of mutual funds for institutional investors.

**The Right Honorable Brian Mulroney** is a member of the board of directors of our general partner. Mr. Mulroney was elected to the board of directors of our general partner effective June 21, 2007. Mr. Mulroney is a senior partner and international business consultant for the Montreal law firm, Norton Rose Canada LLP. Prior to joining Norton Rose Canada, Mr. Mulroney was the eighteenth Prime Minister of Canada from 1984 to 1993 and leader of the Progressive Conservative Party of Canada from 1983 to 1993. He served as the Executive Vice President of the Iron Ore Company of Canada and President beginning in 1977. Prior to that, Mr. Mulroney served on the Cliché Commission of Inquiry in 1974. Mr. Mulroney is a Senior Advisor of Global Affairs at Barrick Gold Corporation, where he previously served as a member of the Board of Directors, and is the Chairman of their International Advisory Board. Mr. Mulroney is also Chairman of the Board of Directors of Quebecor Inc. and

Quebecor Media Inc. and a member of the Board of Directors of Wyndham Worldwide Corporation. In prior years until 2009, Mr. Mulroney was a member of the Board of Directors of Archer Daniels Midland Company and Quebecor World Inc.

**William G. Parrett** is a member of the board of directors of our general partner. Mr. Parrett was elected to the board of directors of our general partner effective November 9, 2007. Until May 31, 2007, Mr. Parrett served as the Chief Executive Officer of Deloitte Touche Tohmatsu. Certain of the member firms of Deloitte Touche Tohmatsu or their subsidiaries and affiliates provide professional services to Blackstone or its affiliates. Mr. Parrett co-founded the Global Financial Services Industry practice of Deloitte and served as its first Chairman. Currently, Mr. Parrett is Senior Trustee of the United States Council for International Business. Mr. Parrett is a member of the board of directors of Thermo Fisher Scientific Inc., Eastman Kodak Company and UBS AG, and is Chairman of the audit committee of each of these companies as well as the Corporate Responsibility Committee of UBS and the Strategy and Finance Committee of Thermo Fisher. He is a member of the Board of Trustees of Carnegie Hall and a past Chairman of the Board of Trustees of United Way Worldwide. Mr. Parrett is a Certified Public Accountant with an active license.

### **Board Composition**

Our general partner seeks to ensure that the board of directors of our general partner is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the board of directors of our general partner, Mr. Schwarzman takes into account (a) minimum individual qualifications, such as strength of character, mature judgment, industry knowledge or experience and an ability to work collegially with the other members of the board of directors, and (b) all other factors he considers appropriate.

After conducting an initial evaluation of a candidate, Mr. Schwarzman will interview that candidate if he believes the candidate might be suitable to be a director and may also ask the candidate to meet with other directors and senior management. If, following such interview and any consultations with senior management, Mr. Schwarzman believes a candidate would be a valuable addition to the board of directors, he will appoint that individual to the board of directors of our general partner.

When considering whether the board's directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the board to satisfy its oversight responsibilities effectively in light of the Partnership's business and structure, Mr. Schwarzman focused on the information described in each of the board members' biographical information set forth above. In particular, with regard to Mr. Grauer, Mr. Schwarzman considered his extensive financial background and significant management experience at Bloomberg L.P. With regard to Mr. Jenrette, Mr. Schwarzman considered his extensive financial background and experience in a variety of senior leadership roles, including his roles at Donaldson, Lufkin & Jenrette, Inc. and The Equitable Companies Incorporated. With regard to Ms. Lazarus, Mr. Schwarzman considered her extensive business background and her management experience in a variety of senior leadership roles at Ogilvy & Mather. With regard to Mr. Light, Mr. Schwarzman considered his distinguished career as a professor and dean at Harvard Business School with extensive knowledge and expertise of the investment management and capital markets industries. With regard to Mr. Mulroney, Mr. Schwarzman considered his distinguished career of government service, especially his service as the Prime Minister of Canada. With regard to Mr. Parrett, Mr. Schwarzman considered his significant experience, expertise and background with regard to auditing and accounting matters, his leadership role at Deloitte and his seven years of experience serving as a director on boards of directors. With regard to Messrs. James, Hill, Goodman and Gray, Mr. Schwarzman considered their leadership and extensive knowledge of our business and operations gained through their years of service at our firm and with regard to himself, Mr. Schwarzman considered his role as founder and long-time chief executive officer of our firm.

## Partnership Management and Governance

Our general partner, Blackstone Group Management L.L.C., manages all of our operations and activities. Our general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business. Our partnership agreement provides that our general partner in managing our operations and activities is entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners, and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Blackstone Group Management L.L.C. is wholly owned by our senior managing directors and controlled by our founder, Mr. Schwarzman. Our common unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of our common unitholders are limited as set forth in our partnership agreement and in the Delaware Limited Partnership Act.

Blackstone Group Management L.L.C. does not receive any compensation from us for services rendered to us as our general partner. Our general partner is reimbursed by us for all expenses it incurs in carrying out its activities as general partner of the Partnership, including compensation paid by the general partner to its directors and the cost of directors and officers liability insurance obtained by the general partner.

The limited liability company agreement of Blackstone Group Management L.L.C. establishes a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Mr. Schwarzman will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner holding a majority in interest in our general partner. We refer to the board of directors of Blackstone Group Management L.L.C. as the "board of directors of our general partner." The board of directors of our general partner has a total of eleven members, including six members who are not officers or employees, and are otherwise independent, of Blackstone and its affiliates, including our general partner.

The board of directors of our general partner has three standing committees: the audit committee, the conflicts committee and the executive committee.

**Audit Committee**. The audit committee consists of Messrs. Parrett (Chairman), Grauer, Jenrette and Light and Ms. Lazarus. The purpose of the audit committee is to assist the board of directors of Blackstone Group Management L.L.C. in overseeing and monitoring (a) the quality and integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) our independent registered public accounting firm's qualifications and independence, and (d) the performance of our independent registered public accounting firm. The members of the audit committee meet the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the New York Stock Exchange listing standards and SEC rules applicable to audit committees. The board of directors of our general partner has determined that Mr. Parrett is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Parrett serves on the audit committees of four public companies, including Blackstone. The board of directors of our general partner determined at its January 2016 meeting that upon consideration of all relevant facts and circumstances known to the board of directors, Mr. Parrett's simultaneous service on the audit committees of four public companies does not impair his ability to effectively serve on the audit committee of the board of directors of our general partner. The audit committee has a charter, which is available on our website at <http://ir.blackstone.com> under "Corporate Governance."

**Conflicts Committee**. The conflicts committee consists of Messrs. Parrett (Chairman), Grauer, Jenrette and Light and Ms. Lazarus. The conflicts committee reviews specific matters that our general partner's board of



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directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of any conflict of interest submitted to it is fair and reasonable to the Partnership. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us and not a breach by us of any duties we may owe to our common unitholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under “— Item 13. Certain Relationships and Related Transactions, and Director Independence,” and may establish guidelines or rules to cover specific categories of transactions. The members of the conflicts committee meet the independence standards for service on an audit committee of a board of directors pursuant to federal and New York Stock Exchange rules relating to corporate governance matters.

**Executive Committee** . The executive committee of the board of directors of Blackstone Group Management L.L.C. consists of Messrs. Schwarzman, James, Hill, Goodman and Gray. The board of directors has delegated all of the power and authority of the full board of directors to the executive committee to act when the board of directors is not in session.

**Code of Business Conduct and Ethics**

We have a Code of Business Conduct and Ethics and a Code of Ethics for Financial Professionals, which apply to our principal executive officer, principal financial officer and principal accounting officer. Each of these codes is available on our website at <http://ir.blackstone.com> under “Corporate Governance.” We intend to disclose any amendment to or waiver of the Code of Ethics for Financial Professionals and any waiver of our Code of Business Conduct and Ethics on behalf of an executive officer or director either on our Internet website or in an 8-K filing.

**Corporate Governance Guidelines**

The board of directors of our general partner has a governance policy, which addresses matters such as the board of directors’ responsibilities and duties and the board of directors’ composition and compensation. The governance policy is available on our website at <http://ir.blackstone.com> under “Corporate Governance.”

**Communications to the Board of Directors**

The non-management members of our general partner’s board of directors meet at least quarterly. The presiding director at these non-management board member meetings is Mr. Parrett. All interested parties, including any employee or unitholder, may send communications to the non-management members of our general partner’s board of directors by writing to: The Blackstone Group L.P., Attn: Audit Committee, 345 Park Avenue, New York, New York 10154.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the executive officers and directors of our general partner, and persons who own more than ten percent of a registered class of the Partnership’s equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish the Partnership with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2015, such persons complied with all such filing requirements, with the exception of a late filing, due to an administrative oversight, of a Form 4 report on April 30, 2015 by Mr. Goodman reflecting the acquisition of common units that were issued as partial consideration in connection with our acquisition of GSO Capital Partners L.P.

**ITEM 11. EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

***Overview of Compensation Philosophy and Program***

The intellectual capital collectively possessed by our senior managing directors (including our named executive officers) and other employees is the most important asset of our firm. We invest in people. We hire qualified people, train them, encourage them to provide their best thinking to the firm for the benefit of the investors in the funds we manage, and compensate them in a manner designed to retain and motivate them and align their interests with those of the investors in our funds.

Our overriding compensation philosophy for our senior managing directors and certain other employees is that compensation should be composed primarily of (a) annual cash bonus payments tied to the performance of the applicable business unit(s) in which such employee works, (b) performance interests (composed primarily of carried interest and incentive fee interests) tied to the performance of the investments made by the funds in the business unit in which such employee works or for which he or she has responsibility, (c) deferred equity awards reflecting the value of our common units, and (d) additional cash payments and deferred equity awards tied to extraordinary performance of such employee or other circumstances (for example, if there has been a change of role or responsibility). We believe base salary should represent a significantly lesser component of total compensation. We believe the appropriate combination of annual cash bonus payments and performance interests or deferred equity awards encourages our senior managing directors and other employees to focus on the underlying performance of our investment funds, as well as the overall performance of the firm and interests of our common unitholders. To that end, the primary form of compensation to our senior managing directors and other employees who work in our carry fund operations is generally a combination of annual cash bonus payments related to the performance of those carry fund operations, carried interest or incentive fee interests and, in specified cases, deferred equity awards. Along the same lines, the primary form of compensation to our senior managing directors and other employees who do not work in our carry fund operations is generally a combination of annual cash bonus payments tied to the performance of the applicable business unit in which such employee works and deferred equity awards.

Employees at higher total compensation levels are generally targeted to receive a greater percentage of their total compensation payable in annual cash bonuses, participation in performance interests, and deferred equity awards and a lesser percentage in the form of base salary compared to employees who are paid less. We believe that the proportion of compensation that is “at risk” should increase as an employee’s level of responsibility rises.

Our compensation program includes significant elements that discourage excessive risk taking and aligns the compensation of our employees with the long-term performance of the firm. For example, notwithstanding the fact that for accounting purposes we accrue compensation for the Performance Plans (as defined below) related to our carry funds as increases in the carrying value of the portfolio investments are recorded in those carry funds, we only make cash payments to our employees related to carried interest when profitable investments have been realized and cash is distributed first to the investors in our funds, followed by the firm and only then to employees of the firm. Moreover, if a carry fund fails to achieve specified investment returns due to diminished performance of later investments, our Performance Plans entitle us to “claw back” carried interest payments previously made to an employee for the benefit of the limited partner investors in that fund, and we escrow a portion of all carried interest payments made to employees to help fund their potential future “clawback” obligations, all of which further discourages excessive risk-taking by our employees. Similarly, for our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund’s portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period. In addition, and as noted below with respect to our named executive officers, the requirement that we have our professional employees invest in certain of the funds they manage directly aligns the interests of our professionals and our investors. In most cases, these investments represent a significant percentage of employees’ after-tax compensation. Lastly, because our deferred equity awards have significant vesting or deferral provisions, the actual amount of compensation realized by the recipient will be tied directly to the long-term performance of our common units.

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We believe our current compensation and benefit allocations for senior professionals are best in class and are consistent with companies in the alternative asset management industry. We do not generally rely on compensation surveys or compensation consultants. Our senior management periodically reviews the effectiveness and competitiveness of our compensation program, and such reviews may in the future involve the assistance of independent consultants.

*Personal Investment Obligations*. As part of our compensation philosophy and program, we require our named executive officers to personally invest their own capital in and alongside the funds that we manage. We believe that this strengthens the alignment of interests between our executive officers and the investors in those investment funds. (See “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Investment in or Alongside Our Funds”.) In determining compensation for our named executive officers, we do not take into account the gains or losses attributable to the personal investments by our named executive officers in our investment funds.

For equity awards granted in 2014 and prior years, we also require each of our named executive officers to hold at least 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) throughout their employment with the firm and generally for one year following the termination of employment. We believe the continued ownership by our named executive officers of significant amounts of our equity through their direct and indirect interests in the Blackstone Holdings Partnerships affords significant alignment of interests with our common unitholders. In 2015, we revised the minimum retained ownership requirement in order to strengthen retention incentives. As a result, for equity awards granted in 2015 and onward our named executive officers are required to hold 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) until the earlier of (1) ten years after the applicable vesting date and (2) one year following termination of employment.

***Named Executive Officers***

In 2015, our named executive officers were:

<u>Executive</u>	<u>Title</u>
Stephen A. Schwarzman	Chairman and Chief Executive Officer
Hamilton E. James	President, Chief Operating Officer
J. Tomilson Hill	Vice Chairman
Michael S. Chae	Chief Financial Officer
Laurence A. Tosi	Former Chief Financial Officer
John G. Finley	Chief Legal Officer

On July 23, 2015, Mr. Tosi resigned from his position as Chief Financial Officer, effective August 7, 2015. Simultaneously, we announced the appointment of Michael S. Chae as Chief Financial Officer, effective upon Mr. Tosi’s departure. In recognition of Mr. Tosi’s significant contributions to the firm over the course of his tenure as Chief Financial Officer and as consideration for a general release of claims in favor of the firm and its related parties, we determined it was appropriate to enter into a withdrawal agreement with Mr. Tosi which provided for a lump-sum cash payment as well as modifications to two previously granted equity awards. The specific terms of Mr. Tosi’s withdrawal agreement are discussed below under “— Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi.”

***Compensation Elements for Named Executive Officers***

The key elements of the compensation of the named executive officers listed in the tables below for 2015 were base compensation, which is composed of base salary, cash bonus and equity-based compensation, and performance compensation, which is composed of carried interest and incentive fee allocations:

1. Base Salary. Each named executive officer received a \$350,000 annual base salary in 2015, which equals the total yearly partnership drawings that were received by each of our senior managing directors prior to our initial public offering in 2007. In keeping with historical practice, we continue to pay this amount as a base salary.

2. Annual Cash Bonus Payments / Deferred Equity Awards . Since our initial public offering, Mr. Schwarzman has not received any compensation other than the \$350,000 annual salary described above and the actual realized carried interest distributions or incentive fees he may receive in respect of his participation in the carried interest or incentive fees earned from our funds through our Performance Plans described below. We believe that having Mr. Schwarzman's compensation largely based on ownership of a portion of the carried interest or incentive fees earned from our funds aligns his interests with those of the investors in our funds and our common unitholders.

Each of our named executive officers other than Mr. Schwarzman received annual cash bonus payments in 2015 in addition to their base salary. These cash payments included participation interests in the earnings of the firm's various investment businesses. Mr. Hill, who has primary responsibility for Hedge Fund Solutions, our funds of hedge funds operation, received a majority of his cash payments based upon the performance of that business. Indicative participation interests for each year were disclosed to a named executive officer at the beginning of such year and represented estimates of the expected percentage participation that such named executive officer may have had in the relevant business unit(s)' earnings for that same year. However, the ultimate cash payments paid to the named executive officers at the end of the year in respect of their participation interests were determined in the discretion of Mr. Schwarzman and Mr. James, as described below. Earnings for a business unit are calculated based on the annual operating income of that business unit and are generally a function of the performance of such business unit, which is evaluated by Mr. Schwarzman and subject to modification by the firm in its sole discretion. The ultimate cash payment amounts were based on (a) the prior and anticipated performance of the named executive officer, (b) the prior and anticipated performance of the segments and product lines in which the officer serves and for which he has responsibility, and (c) the estimated participation interests given to the officer at the beginning of the year in respect of the investments to be made in that year. We make annual cash bonus payments in the first quarter of the ensuing year to reward individual performance for the prior year. The ultimate cash payments that are made are fully discretionary as further discussed below under "— Determination of Incentive Compensation."

For 2015, all employees other than Mr. Schwarzman, who does not receive an annual cash bonus payment, were deemed eligible to participate in the Deferred Compensation Plan. The Deferred Compensation Plan provides for the deferral of a portion of each participant's annual cash bonus payment. The portion deferred is prescribed under the Deferred Compensation Plan and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. By deferring a portion of a participant's compensation for three years, the Deferred Compensation Plan acts as an employment retention mechanism and thereby enhances the alignment of interests between such participant and the firm. Many asset managers that are public companies utilize deferred compensation plans as a means of retaining and motivating their professionals, and we believe that it is in the interest of our common unitholders to do the same for our personnel. In 2014, Mr. Schwarzman and Mr. James, determined that in order to strengthen retention incentives, it was appropriate to amend and restate our Deferred Compensation Plan beginning with awards granted in 2015 in respect of 2014. In addition to modifying the deferral period from four years to three years, the amendments also revised the delivery terms of the deferral awards and replaced the former premium award component of the plan with the payment of current cash distribution equivalents on both vested and unvested deferred awards. (See "— Nonqualified Deferred Compensation for 2015 — Narrative to Nonqualified Deferred Compensation for 2015 Table".)

On January 20, 2016, Messrs. Hill and Finley each received a deferral award under the Deferred Compensation Plan of deferred restricted common units in respect of their service in 2015. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. The percentage of the named executive officer's 2015 annual cash bonus payment mandatorily deferred into deferred restricted common units was approximately 38.4% for Mr. Hill and 27.0% for Mr. Finley. These awards are reflected as stock awards for fiscal 2015 in the Summary Compensation Table and in the Grants of Plan-

Based Awards in 2015 table. Messrs. James and Chae did not have any portion of their respective 2015 annual cash bonus payments deferred under the Deferred Compensation Plan as their mandatory contributions to our investment funds fully offset their total annual incentive compensation. In addition, since Mr. Tosi resigned from the firm prior to the determination and payment of the annual cash bonuses, he was not eligible to receive an annual cash bonus or to participate in the Deferred Compensation Plan with respect to fiscal 2015.

In January 2015, Messrs. Hill, Tosi and Finley were each awarded a discretionary award of 23,558, 117,790 and 176,685 deferred restricted Blackstone Holdings Partnership Units, respectively. These awards reflected 2014 performance and were also intended to further promote retention and to incentivize future performance. The awards were granted under the 2007 Equity Incentive Plan on July 1, 2015, subject to the named executive officer's continued employment through such date. Mr. Tosi forfeited this award in its entirety in connection with his resignation from the firm. Mr. Hill's and Mr. Finley's outstanding award vests on substantially similar terms as the deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2013 and 2014, except that (1) these awards will also be forfeited if the named executive officer is terminated without cause and (2) upon a qualifying retirement, 50% of the unvested partnership units will continue to vest and be delivered over the vesting period, subject to forfeiture if the named executive officer violates any applicable provision of his employment agreement or engages in any competitive activity (as such term is defined in the applicable award agreement). This award is reflected as a stock award for fiscal 2015 in the Summary Compensation Table for 2015 and in the Grants of Plan-Based Awards in 2015 table.

In January 2016, Messrs. Hill and Chae were each awarded a discretionary award of Blackstone Holdings Partnership Units with a value of \$1,400,000 and \$25,000,000, respectively. These awards reflected 2015 performance and are also intended to further promote retention and to incentivize future performance. In addition, with respect to Mr. Chae, the award was granted in recognition of his appointment to Chief Financial Officer effective August 7, 2015. The awards will be granted under the 2007 Equity Incentive Plan and are expected to be granted on July 1, 2016, subject to the named executive officer's continued employment through such date. Other than with respect to Mr. Chae, whose outstanding award will vest annually in substantially equal installments over six years beginning in 2019, the awards will have the same vesting and other terms as the discretionary awards granted in 2015 in respect of 2014 performance. These awards will be reflected as stock awards for fiscal 2016 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2016 table.

3. Participation in Performance Fees. During 2015, all of our named executive officers participated in the carried interest of our carry funds or the incentive fees of our funds that pay incentive fees through their participation interests in the carry or incentive fee pools generated by these funds. The carry or incentive fee pool with respect to each fund in a given year is funded by a fixed percentage of the total amount of carried interest or incentive fees earned by Blackstone for such fund in that year. We refer to these pools and employee participation therein as our "Performance Plans" and payments made thereunder as performance payments. Because the aggregate amount of performance payments payable through our Performance Plans is directly tied to the performance of the funds, we believe this fosters a strong alignment of interests between the investors in those funds and these named executive officers, and therefore benefits our unitholders. In addition, most alternative asset managers, including several of our competitors, use participation in carried interest or incentive fees as a central means of compensating and motivating their professionals, and we believe that we must do the same in order to attract and retain the most qualified personnel. For purposes of our financial statements, we are treating the income allocated to all our personnel who have participation interests in the carried interest or incentive fees generated by our funds as compensation, and the amounts of carried interest and incentive fees earned by named executive officers are reflected as "All Other Compensation" in the Summary Compensation Table. Cash payments in respect of our Performance Plans for each named executive officer are determined on the basis of the percentage participation in the relevant investments previously allocated to that named executive officer, which percentage participations are established in January in each year in respect of the investments to be made in that year. The percentage participation for a named executive officer may vary from year to year and fund to fund due to several factors, and may include changes in the size and composition of the pool of

Blackstone personnel participating in such Performance Plan in a given year, the performance of our various businesses, new developments in our businesses and product lines, and the named executive officer's leadership and oversight of the business or corporate function for which the named executive officer is responsible and such named executive officer's contributions with respect to our strategic initiatives and development. In addition, certain of our employees, including our named executive officers, may participate in profit sharing initiatives whereby these individuals may receive allocations of investment income from Blackstone's firm investments. Our employees, including our named executive officers, may also receive equity awards in our investment advisory clients and/or be allocated securities of such clients that we have received.

(a) *Carried Interest.* Distributions of carried interest in cash (or, in some cases, in-kind) to our named executive officers and other employees who participate in our Performance Plans relating to our carry funds depends on the realized proceeds and timing of the cash realizations of the investments owned by the carry funds in which they participate. Our carry fund agreements also set forth specified preconditions to a carried interest distribution, which typically include that there must have been a positive return on the relevant investment and that the fund must be above its carried interest hurdle rate. In addition, as described below, employees or senior managing directors may also be required to have fulfilled specified service requirements in order to be eligible to receive carried interest distributions. For our carry funds, carried interest distributions for the named executive officer's participation interests are generally made to the named executive officer following the actual realization of the investment, although a portion of such carried interest is held back by the firm in respect of any future "clawback" obligation related to the fund. In allocating participation interests in the carry pools, we have not historically taken into account or based such allocations on any prior or projected triggering of any "clawback" obligation related to any fund. To the extent any "clawback" obligation were to be triggered, carried interest previously distributed to a named executive officer would have to be returned to the limited partners of such fund, thereby reducing the named executive officer's overall compensation for any such year. Moreover, because a carried interest recipient (including Blackstone itself) may have to fund more than his or her respective share of a "clawback" obligation under the governing documents (generally, up to an additional 50%), there is the possibility that the compensation paid to a named executive officer for any given year could be significantly reduced or even negative in the event a "clawback" obligation were to arise.

Participation in carried interest generated by our carry funds for all participating named executive officers other than Mr. Schwarzman is subject to vesting. Vesting serves as an employment retention mechanism and thereby enhances the alignment of interests between a participant in our Performance Plans and the firm. For carried interest allocated on or prior to December 31, 2012 and carried interest earned in certain of our credit funds, each participating named executive officer (other than Mr. Schwarzman) vests in 25% of the carried interest related to an investment immediately upon the closing of the investment by a carry fund with the remainder vesting in equal installments on the first through third anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such three-year anniversary, in which case such active executive officer is deemed 100% vested in the proceeds of such realizations). For carried interest allocated after December 31, 2012, the carried interest related to an investment vests in equal installments on the first through fourth anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such four-year anniversary, in which case such active executive officer is deemed 100% vested in the proceeds of such realizations). In addition, any named executive officer who is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See "— Non-Competition and Non-Solicitation Agreements — Retirement.") We believe that vesting of carried interest participation enhances the stability of our senior management team and provides greater incentives for our named executive officers to remain at the firm. Due to his unique status as a founder and the long-time chief executive officer of our firm, Mr. Schwarzman vests in 100% of his carried interest participation related to any investment by a carry fund upon the closing of that investment.

(b) *Incentive Fees.* Cash distributions of incentive fees to our named executive officers and other employees who participate in our Performance Plans relating to the funds that pay incentive fees depends on the performance of the investments owned by those funds in which they participate. For our investment funds that

pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period and following the calculation of the profit split (if any) between the fund's general partner or investment adviser and the fund's investors, which occurs once a year (generally December 31 or June 30 of each year).

(c) *Investment Advisory Client Interests*. BXMT is an investment advisory client of Blackstone. Compensation we receive from investment advisory clients in the form of securities may be allocated to employees and senior managing directors. For example, in 2015, Messrs. Schwarzman, James, Tosi and Finley were allocated restricted shares of listed common stock of BXMT in connection with investment advisory services provided by Blackstone to BXMT. The value of these allocated restricted shares is reflected as "All Other Compensation" in the Summary Compensation Table.

4. *Other Benefits*. Upon the consummation of our initial public offering in June 2007, we entered into a founding member agreement with our founder, Mr. Schwarzman, which provides specified benefits to him following his retirement. (See "— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Schwarzman Founding Member Agreement".) Mr. Schwarzman is provided certain security services, including home security systems and monitoring, and personal and related security services. These security services are provided for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Nevertheless, the expenses associated with these security services are reflected in the "All Other Compensation" column of the Summary Compensation Table below.

#### ***Determination of Incentive Compensation***

As our founder, Mr. Schwarzman sets his own compensation and reserves final approval of each named executive officer's compensation, based in large part on recommendations from Mr. James. For 2015, these decisions were based primarily on Mr. Schwarzman's and Mr. James's assessment of such named executive officer's individual performance, operational performance for the segments or product lines in which the officer serves or for which he has responsibility, and the officer's potential to enhance investment returns for the investors in our funds and service to our advisory clients, and to contribute to long-term unitholder value. In evaluating these factors, Mr. Schwarzman and Mr. James relied upon their judgment to determine the ultimate amount of a named executive officer's annual cash bonus payment and participation in carried interest, incentive fees and investment advisory client interests that was necessary to properly induce the named executive officer to seek to achieve our objectives and reward a named executive officer in achieving those objectives over the course of the prior year. Key factors that Mr. Schwarzman considered in making such determination with respect to Mr. James were his service as President and Chief Operating Officer, his role in overseeing the growth and operations of the firm, and his leadership on the strategic direction of the firm generally. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Hill were his leadership and oversight of our Hedge Fund Solutions business, including his role in the oversight and development of new products and strategies, and his leadership on strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Chae were his leadership and oversight of our global finance, treasury, technology and corporate development function and his role in strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Finley were his leadership and oversight of our global legal and compliance functions, his role in positioning the firm to be compliant with and respond to inquiries and requests of the regulatory bodies that regulate and monitor the public company as well as our investment businesses, and his role in strategic initiatives undertaken by the firm. For 2015, Mr. Schwarzman and Mr. James also considered each named executive officer's prior-year annual cash bonus payments, indicative participation interests disclosed to the named executive officer at the beginning of the year, his allocated share of performance interests through participation in our Performance Plans, the appropriate balance between incentives for long-term and short-term performance, and the compensation paid to the named

executive officer's peers within the firm. Since Mr. Tosi resigned from the firm prior to the determination and payment of the annual cash bonuses, he was not eligible to receive an annual cash bonus with respect to fiscal 2015.

***Minimum Retained Ownership Requirements***

The minimum retained ownership requirements for our named executive officers for equity awards granted in 2015 and prior years are described below under “— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Terms of Blackstone Holdings Partnership Units Granted in 2015 and Prior Years — Minimum Retained Ownership Requirements.” The changes made to the minimum retained ownership requirements for equity awards to be granted in 2015 and future years are described above under “— Compensation Discussion and Analysis — Overview of Compensation Philosophy and Program — Personal Investment Obligations.”

**Compensation Committee Report**

The board of directors of our general partner does not have a compensation committee. The members of the executive committee of the board of directors identified below have reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, have determined that the Compensation Discussion and Analysis should be included in this annual report.

*Stephen A. Schwarzman, Chairman*

*Hamilton E. James*

*J. Tomilson Hill*

*Bennett J. Goodman*

*Jonathan D. Gray*

**Compensation Committee Interlocks and Insider Participation**

As described above, we do not have a compensation committee. Our founder Mr. Schwarzman makes all such compensation determinations based in large part on recommendations from Mr. James. For a description of certain transactions between us and Mr. Schwarzman, see “— Item 13. Certain Relationships and Related Transactions, and Director Independence.”



**Summary Compensation Table**

The following table provides summary information concerning the compensation of our Chief Executive Officer, our current Chief Financial Officer, our former Chief Financial Officer who resigned effective August 7, 2015 and each of our three other most highly compensated employees who served as executive officers at December 31, 2015, for services rendered to us. These individuals are referred to as our named executive officers in this annual report.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus (a)</u>	<u>Stock Awards (b)</u>	<u>All Other Compensation (c)</u>	<u>Total</u>
Stephen A. Schwarzman	2015	\$ 350,000	\$ —	\$ —	\$ 89,137,817	\$ 89,487,817
Chairman and Chief Executive Officer	2014	\$ 350,000	\$ —	\$ —	\$ 85,538,640	\$ 85,888,640
	2013	\$ 350,000	\$ —	\$ —	\$ 21,641,142	\$ 21,991,142
Hamilton E. James	2015	\$ 350,000	\$ 35,246,105	\$ —	\$ 40,312,608	\$ 75,908,713
President Chief Operating Officer	2014	\$ 350,000	\$ 37,435,891	\$ 679,326	\$ 39,866,813	\$ 78,332,030
	2013	\$ 350,000	\$ 34,471,212	\$ —	\$ 8,233,031	\$ 43,054,243
J. Tomilson Hill	2015	\$ 350,000	\$ 9,253,650	\$ 5,521,215	\$ 1,634,816	\$ 16,759,681
Vice Chairman	2014	\$ 350,000	\$ 13,557,310	\$ 11,243,928	\$ 789,052	\$ 25,940,290
	2013	\$ 350,000	\$ 11,056,098	\$ 14,515,676	\$ (49,282)	\$ 25,872,492
Michael S. Chae	2015	\$ 350,000	\$ 4,650,000	\$ —	\$ 6,976,078	\$ 11,976,078
Chief Financial Officer						
Laurence A. Tosi	2015	\$ 210,898	\$ —	\$ 11,708,630	\$ 5,795,763	\$ 17,715,291
Former Chief Financial Officer	2014	\$ 350,000	\$ 6,632,140	\$ 2,724,339	\$ 5,265,348	\$ 14,971,827
	2013	\$ 350,000	\$ 7,254,261	\$ 729,067	\$ 2,245,049	\$ 10,578,377
John G. Finley	2015	\$ 350,000	\$ 3,284,157	\$ 8,188,928	\$ 1,365,090	\$ 13,188,175
Chief Legal Officer	2014	\$ 350,000	\$ 3,981,393	\$ 2,049,828	\$ 1,288,606	\$ 7,669,827
	2013	\$ 350,000	\$ 4,212,555	\$ 243,022	\$ 536,357	\$ 5,341,934

(a) The amounts reported in this column reflect the annual cash bonus payments made for performance in the indicated year.

The amounts reported as “bonus” for 2015 for Messrs. Hill and Finley are shown net of their respective mandatory deferral pursuant to the Deferred Compensation Plan. The deferred amounts for 2015 were as follows: Mr. Hill, \$5,766,064 and Mr. Finley, \$1,213,353. For additional information on the Deferred Compensation Plan, see “— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Deferred Compensation Plan.”

(b) The reference to “stock” in this table refers to deferred restricted Blackstone Holdings Partnership Units or deferred restricted common units. The amounts reported in this column represent the grant date fair value of stock awards granted for financial statement reporting purposes in accordance with GAAP pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data.”

Amounts reported for 2015 reflect the following deferred equity awards granted on January 20, 2016 for 2015 performance pursuant to the Deferred Compensation Plan: Mr. Hill, 191,883 deferred restricted common units with a grant date fair value of \$4,557,221 and Mr. Finley, 40,378 deferred restricted common units with a grant date fair value of \$958,978. The grant date fair value of the stock award reflecting the deferred bonus amount is computed in accordance with GAAP and generally differs from the dollar amount of the portion of the bonus that is required to be deferred under the Deferred Compensation Plan. For additional information on the Deferred Compensation Plan, see “— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Deferred Compensation Plan.”

Amounts reported for 2015 also reflect the following discretionary equity awards granted on July 1, 2015 under the 2007 Equity Incentive Plan: Mr. Hill, 23,558 deferred restricted Blackstone Holdings Partnership Units, Mr. Tosi, 117,790 deferred restricted Blackstone Holdings Partnership Units and Mr. Finley, 176,685 deferred restricted Blackstone Holdings Partnership Units. The July 1, 2015 grant date fair value of the stock award reflecting the discretionary equity award amount is computed in accordance with GAAP and generally differs from the dollar amount of the discretionary equity award which was determined in January 2015. Mr. Tosi's award was forfeited in its entirety in connection with his resignation from the firm.

Pursuant to the terms of Mr. Tosi's withdrawal agreement, we agreed to modify (1) his award of 49,925 deferred restricted common units granted on January 16, 2015 to provide that, notwithstanding his resignation, the units will continue to vest and be settled in accordance with their terms, subject to Mr. Tosi's continued compliance with his non-competition and non-solicitation agreement through each applicable vesting date and (2) his award of 344,154 unvested deferred restricted Blackstone Holdings Partnership Units granted on January 26, 2011, which was scheduled to cliff vest in full on January 1, 2016, by allowing him to vest in a number of Blackstone Holdings Partnership Units intended to approximate the grant date fair value of the original award. These actions were accounted for as modifications for financial statement reporting purposes in accordance with GAAP and the amount reported for 2015 for Mr. Tosi reflects the incremental fair value, computed as of the August 7, 2015 deemed modification date in accordance with GAAP, with respect to each modified award. Mr. Tosi's withdrawal agreement with the firm, including the modifications to his 2015 deferred equity awards, is further discussed below under "— Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi."

- (c) Amounts reported for 2015 include cash payments in respect of carried interest or incentive fee allocations relating to our Performance Plans to the named executive officer in 2015 as follows: \$88,296,986 for Mr. Schwarzman, \$40,114,165 for Mr. James, \$6,976,078 for Mr. Chae, \$1,634,816 for Mr. Hill, \$5,235,443 for Mr. Tosi and \$1,344,983 for Mr. Finley, respectively. Amount reported for Mr. Tosi also includes payments in connection with participation in certain profit sharing initiatives with respect to Blackstone's firm investments. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. For 2015, Messrs. Schwarzman, James and Chae were the only named executive officers who received such in-kind distributions. We have determined to present compensation relating to carried interest and incentive fees within the Summary Compensation Table in the year in which such compensation is paid to the named executive officer under the terms of the relevant Performance Plan. Accordingly, the amounts presented in the table differ from the compensation expense recorded by us on an accrual basis for such year in respect of carried interest and incentive fees allocable to a named executive officer, which accrued amounts for 2015 are separately disclosed in this footnote to the Summary Compensation Table. We believe that the presentation of the actual amounts of carried interest- and incentive fee-related compensation earned by a named executive officer during the year, instead of the amounts of compensation expense we have recorded on an accrual basis, most appropriately reflects the actual compensation received by the named executive officer and represents the amount most directly aligned with the named executive officer's actual performance. By contrast, the amount of compensation expense accrued in respect of carried interest and incentive fees allocable to a named executive officer can be highly volatile from year to year, with amounts accrued in one year being reversed in a following year, and vice versa, causing such amounts to be less useful as a measure of the compensation actually earned by a named executive officer in any particular year.

To the extent compensation expense recorded by us on an accrual basis in respect of carried interest or incentive fee allocations (rather than cash payments) were to be included for 2015, the amounts would be \$99,273,000 for Mr. Schwarzman, \$60,336,664 for Mr. James, \$2,420,174 for Mr. Hill, \$15,430,761 for Mr. Chae, \$4,650,443 for Mr. Tosi and \$1,618,340 for Mr. Finley. For financial statement reporting purposes, the accrual of compensation expense is equal to the amount of carried interest and incentive fees related to performance fee revenues as of the last day of the relevant period as if the performance fee revenues in the funds generating such carried interest or incentive fees were realized as of the last day of the relevant period.

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With respect to Messrs. Schwarzman, James, Tosi and Finley, amounts shown for 2015 also include the value of restricted shares of listed common stock of BXMT allocated to such named executive officers based on the closing price of BXMT's common stock on the date of the award as follows: \$604,539 for Mr. Schwarzman, \$198,443 for Mr. James, \$60,320 for Mr. Tosi (a portion of which was forfeited upon his resignation) and \$20,107 for Mr. Finley. These restricted shares will vest over three years with one-sixth of the shares vesting at the end of the second quarter after the date of the award and the remaining shares vesting in ten equal quarterly installments thereafter.

With respect to Mr. Tosi, amount shown for 2015 also includes a \$500,000 lump-sum cash payment paid to Mr. Tosi on November 17, 2015 pursuant to the terms of his withdrawal agreement. Mr. Tosi's withdrawal agreement with the firm is further discussed below under "— Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi."

With the exception of \$236,292 of expenses related to security services for Mr. Schwarzman in 2015, perquisites and other personal benefits to the named executive officers were less than \$10,000 and information regarding perquisites and other personal benefits has therefore not been included. As noted above under "— Compensation Discussion and Analysis — Compensation Elements for Named Executive Officers — Other Benefits," we consider the expenses for security services for Mr. Schwarzman to be for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Mr. Schwarzman makes business and personal use of a car and driver and he and members of his family also make occasional business and personal use of an airplane in which we have a fractional interest and in each case he bears the full cost of such personal usage. In addition, certain Blackstone personnel administer personal matters for Mr. Schwarzman and certain matters for the Stephen A. Schwarzman Education Foundation ("SASEF"), and Mr. Schwarzman and SASEF, respectively, bear the full incremental cost to us of such personnel. Mr. James and members of his family make occasional business and personal use of an airplane in which we have a fractional interest and he bears the full incremental cost of such personal usage. There is no incremental expense incurred by us in connection with the use of any car and driver, airplane or personnel by either of Messrs. Schwarzman or James, as described above.

During 2015, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$11,110 dollars to Mr. Schwarzman and \$4,280 dollars to Mr. James.

**Grants of Plan-Based Awards in 2015**

The following table provides information concerning unit awards granted in 2015 or, for deferred restricted common units granted under the Deferred Compensation Plan, with respect to 2015, to our named executive officers:

<u>Name</u>	<u>Grant Date</u>	<u>All Other Stock Awards: Number of Shares of Stock or Units (a)</u>	<u>Grant Date Fair Value of Stock and Option Awards (a)</u>
Stephen A. Schwarzman	—	—	\$ —
Hamilton E. James	—	—	\$ —
J. Tomilson Hill	7/1/2015	23,558(b)	\$ 963,993
	1/20/2016	191,883(c)	\$4,557,221
Michael S. Chae	—	—	\$ —
Laurence A. Tosi	7/1/2015	117,790(b)	\$4,819,967
	8/7/2015	176,604(d)	\$5,000,000
	8/7/2015	49,925(d)	\$1,888,663
John G. Finley	7/1/2015	176,685(b)	\$7,229,950
	1/20/2016	40,378(c)	\$ 958,978

- (a) The references to “stock” or “shares” in this table refer to deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units.
- (b) Represents deferred restricted Blackstone Holdings Partnership Units granted under our 2007 Equity Incentive Plan and reflects 2015 performance. Mr. Tosi forfeited this award in its entirety in connection with his resignation from the firm.
- (c) Represents deferred restricted common units granted in 2016 under the Deferred Compensation Plan for 2015 performance. These grants are reflected in the “Stock Awards” column of the Summary Compensation Table in 2015. (See “— Nonqualified Deferred Compensation for 2015 — Narrative to Nonqualified Deferred Compensation for 2015 Table.”) These grants are reflected in the “Stock Awards” column of the Summary Compensation Table in 2015.
- (d) Pursuant to the terms of Mr. Tosi’s withdrawal agreement, we agreed to modify (1) his award of 49,925 deferred restricted common units granted on January 16, 2015 to provide that, notwithstanding his resignation, the units will continue to vest and be settled in accordance with their terms, subject to Mr. Tosi’s continued compliance with his non-competition and non-solicitation agreement through each applicable vesting date and (2) his award of 344,154 unvested deferred restricted Blackstone Holdings Partnership Units granted on January 26, 2011, which was scheduled to cliff vest in full on January 1, 2016, by allowing him to vest in a number of Blackstone Holdings Partnership Units intended to approximate the grant date fair value of the original award. The actual number of vested Blackstone Holdings Partnership Units was based on fair market value equal to \$5,000,000 using a 60-day day volume weighted average price as of February 1, 2016. These actions were accounted for as modifications for financial statement reporting purposes in accordance with GAAP and the amounts reported for 2015 for Mr. Tosi reflect the incremental fair value, computed as of the August 7, 2015 deemed modification date in accordance with GAAP, with respect to each modified award. Mr. Tosi’s withdrawal agreement with the firm, including the modifications to his two previously granted equity awards, is further discussed below under “— Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi.”

## Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015

### *Terms of Blackstone Holdings Partnership Units Granted in 2015 and Prior Years*

Our pre-IPO owners, including our named executive officers other than Mr. Tosi and Mr. Finley, received Blackstone Holdings Partnership Units in the reorganization in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings. Each of Mr. Tosi and Mr. Finley received grants of Blackstone Holdings Partnership Units following the commencement of their employment with us under our 2007 Equity Incentive Plan. Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, these partnership units may be exchanged for our common units as described under “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement” below.

*Vesting Provisions* . The Blackstone Holdings Partnership Units received by our named executive officers (other than Mr. Tosi and Mr. Finley) in the reorganization have the following vesting provisions:

- 25% of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested, with the remaining 75% vesting, subject to Mr. Schwarzman’s continued employment, in equal installments on each anniversary of our initial public offering (June 21, 2007) over four years. All of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for his interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested; and
- 25% of the Blackstone Holdings Partnership Units received by each of Messrs. James, Hill and Chae in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested. The remaining units vest, subject to the named executive officer’s continued employment, in equal installments on each anniversary of our initial public offering over up to eight years and are now fully vested. All of the Blackstone Holdings Partnership Units received by Messrs. James, Hill and Chae in the reorganization in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested.

As discussed under “— Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi” below, in connection with Mr. Tosi’s resignation from the firm, we agreed to modify the terms of his 2015 equity awards. All of Mr. Tosi’s other unvested deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units were immediately forfeited upon his resignation.

The 500,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2010 under the 2007 Equity Incentive Plan vested in equal installments over five years on each anniversary of his hire date (September 1, 2010). The 20,454 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2012 under the 2007 Equity Incentive Plan vested 20% on July 1, 2015 and vest 30% on July 1, 2016 and 50% on July 1, 2017. The 11,578 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley, in 2013 under the 2007 Equity Incentive Plan vest 20% on July 1, 2016, 30% on July 1, 2017 and 50% on July 1, 2018. The 31,071 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2014 under the 2007 Equity Incentive Plan vest 20% on July 1, 2017, 30% on July 1, 2018 and 50% on July 1, 2019. The 176,685 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2015 under the 2007 Equity Incentive Plan vest 20% July 1, 2018, 30% on July 1, 2019 and 50% on July 1, 2020.

Except as described below, unvested deferred restricted Blackstone Holdings Partnership Units are generally forfeited upon termination of employment. With respect to Mr. Finley, the deferred restricted Blackstone Holdings Partnership Units granted to him in 2013 and 2014 will become fully vested if he is terminated by us without cause. A named executive officer who leaves our firm to accept specified types of positions in government service will continue to vest in units as if he had not left our firm during the period of government service. In addition, upon the death or permanent disability of a named executive officer, all of his unvested deferred restricted Blackstone

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Holdings Partnership Units held at that time will vest immediately. In connection with a named executive officer's termination of employment due to qualifying retirement, with respect to unvested deferred restricted Blackstone Holdings Partnership Units granted in 2014 and prior years, 50% of such units will generally be entitled to accelerated vesting and, with respect to unvested deferred restricted Blackstone Holdings Partnership Units granted in 2015 and 2016, 50% of such units will continue to vest and be delivered over the vesting period, subject to forfeiture if the named executive officer violates any applicable provision of his employment agreement or engages in any competitive activity (as such term is defined in the applicable award agreement). (See "Non-Competition and Non-Solicitation Agreements—Retirement.") Further, in the event of a change in control (defined in the Blackstone Holdings partnership agreements as the occurrence of any person becoming the general partner of The Blackstone Group L.P. other than a person approved by the current general partner), any deferred restricted Blackstone Holdings Partnership Units will automatically be deemed vested as of immediately prior to such change in control.

All vested and unvested Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units (and our common units received in exchange for such Blackstone Holdings Partnership Units) held by a named executive officer will be immediately forfeited in the event he materially breaches any of his restrictive covenants set forth in the non-competition and non-solicitation agreement outlined under "Non-Competition and Non-Solicitation Agreements" or his service is terminated for cause.

*Minimum Retained Ownership Requirements* . For units granted in 2014 and prior years, while employed by us and generally for one year following the termination of employment, each of our named executive officers (except as otherwise provided below) will be required to continue to hold (and may not transfer) at least 25% of all vested units (other than vested units awarded under our Deferred Compensation Plan) received by him. For units granted in 2015 and future years each of our named executive officers (except as otherwise provided below) will be required to hold 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) until the earlier of (1) ten years after the applicable vesting date and (2) one year following termination of employment. The requirement that one continue to hold at least 25% of such vested units is subject to the qualification in Mr. Schwarzman's case that in no event will he be required to hold units having a market value greater than \$1.5 billion. Each of our named executive officers is in compliance with these minimum retained ownership requirements.

*Transfer Restrictions* . None of our named executive officers may transfer Blackstone Holdings Partnership Units other than pursuant to transactions or programs approved by our general partner.

This transfer restriction applies to sales, pledges of Blackstone Holdings Partnership Units, grants of options, rights or warrants to purchase Blackstone Holdings Partnership Units or swaps or other arrangements that transfer to another, in whole or in part, any of the economic consequences of ownership of the Blackstone Holdings Partnership Units other than as approved by our general partner. We expect that our general partner will approve pledges or transfers to personal planning vehicles beneficially owned by the families of our pre-IPO owners and charitable gifts, provided that the pledgee, transferee or donee agrees to be subject to the same transfer restrictions (except as specified above with respect to Mr. Schwarzman). Transfers to Blackstone are also exempt from the transfer restrictions.

The transfer restrictions set forth above will continue to apply generally for one year following the termination of employment of a named executive officer other than Mr. Schwarzman for any reason, except that the transfer restrictions set forth above will lapse upon death or permanent disability. The transfer restrictions will lapse in the event of a change in control (as defined above).

The Blackstone Holdings Partnership Units received by other Blackstone personnel in the reorganization and pursuant to the 2007 Equity Incentive Plan are also generally subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to our named executive officers other than Mr. Schwarzman, although non-senior managing directors are also generally subject to vesting in respect of a portion of the Blackstone Holdings Partnership Units received by such personnel in the reorganization in exchange for their interests in carried interest.

***Schwarzman Founding Member Agreement***

Upon the consummation of our initial public offering, we entered into a founding member agreement with Mr. Schwarzman. Mr. Schwarzman's agreement provides that he will remain our Chairman and Chief Executive Officer while continuing service with us and requires him to give us six months' prior written notice of intent to terminate service with us. The agreement provides that following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including that he will be permitted until the third anniversary of his retirement date to retain his current office and will be provided with a car and driver. Commencing on the third anniversary of his retirement date and continuing until the tenth anniversary thereof, we will provide him with an appropriate office if he so requests. Additionally, Mr. Schwarzman will be provided with an assistant and access to office services during the ten-year period following his retirement date.

Mr. Schwarzman will also continue to receive health benefits following his retirement until his death, subject to his continuing payment of the related health insurance premiums consistent with current policies. Additionally, before his retirement and during the ten-year period thereafter, Mr. Schwarzman and any foundations he may establish may continue to invest in our investment funds on a basis generally consistent with that of other partners.

***Senior Managing Director Agreements***

Upon the consummation of our initial public offering, we entered into substantially similar senior managing director agreements with each of our named executive officers and other senior managing directors other than our founder, Mr. Tosi and Mr. Finley. Senior managing directors who have joined the firm after our initial public offering (including Mr. Tosi and Mr. Finley) have also entered into senior managing director agreements. The agreements generally provide that each senior managing director will devote substantially all of his or her business time, skill, energies and attention to us in a diligent manner. Each senior managing director will be paid distributions and benefits in amounts determined by Blackstone from time to time in its sole discretion. The agreements require us to provide the senior managing director with 90 days' prior written notice prior to terminating his or her service with us (other than a termination for cause). Additionally, the agreements require each senior managing director to give us 90 days' prior written notice of intent to terminate service with us and require the senior managing director to be placed on a 90-day period of "garden leave" following the senior managing director's termination of service (as further described under the caption "— Non-Competition and Non-Solicitation Agreements" below).

**Outstanding Equity Awards at 2015 Fiscal Year End**

The following table provides information regarding outstanding unvested equity awards made to our named executive officers as of December 31, 2015. In connection with the spin-off of the operations that historically constituted Blackstone’s Financial Advisory segment, other than Blackstone’s capital markets services business, unvested deferred restricted common units and unvested deferred restricted Blackstone Holdings Partnership Units were generally adjusted by granting additional unvested deferred restricted units in order to maintain the intrinsic value of each award as required pursuant to the terms of the 2007 Equity Incentive Plan. The awards otherwise retained the original terms and conditions after adjustment.

<u>Name</u>	<u>Stock Awards (a)</u>	
	<u>Number of Shares or Units of Stock That Have Not Vested</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (b)</u>
Stephen A. Schwarzman	—	\$ —
Hamilton E. James (c)	—	\$ —
J. Tomilson Hill (c)	190,469	\$ 5,569,314
Michael S. Chae	—	\$ —
Laurence A. Tosi (d)	50,718	\$ 1,482,994
John G. Finley	310,188	\$ 8,848,222

- (a) The references to “stock” or “shares” in this table refer to unvested deferred restricted Blackstone Holdings Partnership Units and unvested deferred restricted common units granted under the Deferred Compensation Plan (including deferred restricted common units granted to Mr. Finley in 2016 in respect of 2015 performance and the unvested premium portion of deferred restricted common units granted to Mr. Hill under the Deferred Compensation Plan). The vesting terms of these awards are described under the captions “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Terms of Blackstone Holdings Partnership Units Granted in 2015 and Prior Years” above and “— Nonqualified Deferred Compensation for 2015 — Narrative to Nonqualified Deferred Compensation for 2015 Table” below.
- (b) The dollar amounts shown under this column were calculated by multiplying the number of unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by the named executive officer by the closing market price of \$29.24 per Blackstone common unit on December 31, 2015, the last trading day of 2015, other than the deferred restricted common units granted in 2016 in respect of 2015 performance, which are valued as of the date of their grant.
- (c) This table does not reflect (1) undelivered deferred restricted common units that were granted to Messrs. James and Hill in 2015 pursuant to the Deferred Compensation Plan in respect of 2014 performance that were considered vested on the date of grant due to their retirement eligibility, (2) undelivered deferred restricted common units that were granted to Mr. Hill in 2016 pursuant to the Deferred Compensation Plan in respect of 2015 performance that were considered vested on the date of grant due to his retirement eligibility and (3) mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in respect of 2013 and prior years. These deferred restricted common units are reflected in the Nonqualified Deferred Compensation for 2015 Table below.
- (d) As described under “ — Potential Payments Upon Termination of Employment or Change in Control — Withdrawal Agreement with Laurence Tosi” below, in connection with Mr. Tosi’s resignation, effective August 7, 2015, we entered into a withdrawal agreement with him on November 3, 2015 pursuant to which we agreed to modify (1) his award of 49,925 deferred restricted common units granted on January 16, 2015 to provide that, notwithstanding his resignation, the units will continue to vest and be settled in accordance with their terms, subject to Mr. Tosi’s continued compliance with his non-competition and non-solicitation agreement through each applicable vesting date and (2) his award of 344,154 unvested deferred restricted Blackstone Holdings Partnership Units granted on January 26, 2011, which was scheduled to cliff vest in full on January 1, 2016, by allowing him to vest in a number of Blackstone Holdings Partnership Units intended to approximate the grant date fair value of the original award. All other unvested deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units were immediately forfeited upon his resignation.



**Option Exercises and Stock Vested in 2015**

The following table provides information regarding the number of outstanding initially unvested equity awards made to our named executive officers that vested during 2015 or, for deferred restricted common units granted to Mr. Hill under the Deferred Compensation Plan, with respect to 2015:

Name	Stock Awards (a)	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	4,111,528	\$ 174,287,672
J. Tomilson Hill (c)	1,644,227	\$ 65,359,661
Michael S. Chae	909,734	\$ 38,563,624
Laurence A. Tosi (d)	198,876	\$ 5,840,470
John G. Finley	104,090	\$ 3,412,363

- (a) The references to “stock” or “shares” in this table refer to Blackstone Holdings Partnership Units, deferred restricted Blackstone Holdings Partnership Units and our deferred restricted common units.
- (b) The value realized on vesting is based on the closing market prices of our common units on the day of vesting.
- (c) For Mr. Hill, includes 191,883 deferred restricted common units granted pursuant to the Deferred Compensation Plan, with a value realized on vesting of \$4,557,221, which were all considered vested on the date of grant due to Mr. Hill’s retirement eligibility. These deferred restricted common units are scheduled to be delivered in equal annual installments over the three year deferral period and are reflected in the Nonqualified Deferred Compensation for 2015 Table below.
- (d) For Mr. Tosi, includes 176,604 deferred restricted Blackstone Holdings Partnership Units vested on the date of grant and received pursuant to the terms of his withdrawal agreement as a modification to his award of 344,154 unvested deferred restricted Blackstone Holdings Partnership Units granted on January 26, 2011, which was scheduled to cliff vest in full on January 1, 2016. The actual number of vested Blackstone Holdings Partnership Units was based on fair market value equal to \$5,000,000 using a 60-day volume weighted average price as of February 1, 2016.

**Nonqualified Deferred Compensation for 2015**

The following table provides (1) undelivered deferred restricted common units that were granted to Messrs. James and Hill in 2015 pursuant to the Deferred Compensation Plan in respect of 2014 performance that were considered vested on the date of grant due to their retirement eligibility, but upon which the underlying common units have not yet been delivered, (2) undelivered deferred restricted common units that were granted to Mr. Hill in 2016 pursuant to the Deferred Compensation Plan in respect of 2015 performance that were considered vested on the date of grant due to his retirement eligibility, but upon which the underlying common units have not yet been delivered, and (3) mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in respect of 2013 and prior years.

Name	Executive Contributions in 2015	Registrant Contributions in 2015 (a)	Aggregate Earnings (Losses) in 2015 (b)	Aggregate Withdrawals/ Distributions (c)	Aggregate Balance at December 31, 2015 (d)
Stephen A. Schwarzman	\$ —	\$ —	\$ —	\$ —	\$ —
Hamilton E. James	\$ —	\$ 10,089	\$ (31,415)	\$ 58,668	\$ 599,332
J. Tomilson Hill	\$ —	\$ 4,959,022	\$ (1,575,425)	\$ 13,350,642	\$ 28,459,255
Michael S. Chae	\$ —	\$ —	\$ —	\$ —	\$ —
Laurence A. Tosi	\$ —	\$ —	\$ —	\$ —	\$ —
John G. Finley	\$ —	\$ —	\$ —	\$ —	\$ —

- (a) This column represents the mandatory deferral of a portion of Mr. Hill's annual cash bonus for 2015 into 191,883 deferred restricted common units, respectively pursuant to our Deferred Compensation Plan. These units were granted to Mr. Hill in 2016 in respect of 2015 performance. These deferred restricted common units are deemed vested due to retirement eligibility, but will be delivered in equal annual installments over three years. This amount is also reflected in the "Stock Awards" column of the Summary Compensation Table for the last completed fiscal year (see footnote (b) to the Summary Compensation Table). In addition, this column includes the value of an additional 321 and 12,784 deferred restricted common units granted to Messrs. James and Hill, respectively, as a result of the adjustments made in connection with the spin-off of the operations that historically constituted Blackstone's Financial Advisory segment, other than Blackstone's capital markets services business. The adjustments did not result in any incremental fair value in accordance with GAAP and therefore there are no amounts associated with these additional deferred restricted common units reported as compensation in the Summary Compensation Table for the last completed fiscal year.
- (b) This column represents the earnings/(losses) during 2015 on deferred restricted common units granted to Messrs. James and Hill pursuant to our Deferred Compensation Plan (including the additional deferred restricted common units granted as a result of the adjustments made in connection with the spin-off) through the earlier of their delivery or December 31, 2015. In addition, this column includes the payment of current cash distribution equivalents on deferred restricted common units granted to Messrs. James and Hill pursuant to the Deferred Compensation Plan in 2015 in respect of 2014 (including the additional deferred restricted common units granted as a result of the adjustments made in connection with the spin-off) through the earlier of their delivery or December 31, 2015. No portion of any earnings would be considered above-market or preferential and, accordingly, no earnings are reflected in the Summary Compensation Table.
- (c) Represents the value of 332,785 deferred common units that were delivered to Mr. Hill in 2015 based on the closing market price per Blackstone common unit on the date(s) of delivery. Also includes the payment of current cash distribution equivalents on deferred restricted common units granted to Messrs. James and Hill pursuant to the Deferred Compensation Plan in 2015 in respect of 2014 (including the additional deferred restricted common units granted as a result of the adjustments made in connection with the spin-off).
- (d) Represents the value as of December 31, 2015 of 20,497 deferred common units granted to Mr. James and 1,009,326 deferred common units granted to Mr. Hill. With respect to Messrs. James and Hill, \$679,326 and \$22,621,020 has been previously reported in the "Stock Awards" column of the Summary Compensation Table, respectively. The values set forth in this column are based on the closing market price of \$29.24 per Blackstone common units on December 31, 2015, other than the units granted in 2016 in respect of 2015 performance, which are valued as of the date of their grant.

***Narrative to Nonqualified Deferred Compensation for 2015 Table***

In 2007, we established our Deferred Compensation Plan (which we also refer to as our "Bonus Deferral Plan") for certain eligible employees of Blackstone and certain of its affiliates in order to provide such eligible employees with a pre-tax deferred incentive compensation opportunity and to enhance the alignment of interests between such eligible employees and Blackstone and its affiliates. The Deferred Compensation Plan is an unfunded, nonqualified deferred compensation plan which provides for the automatic, mandatory deferral of a portion of each participant's annual cash bonus payment.

At the end of each year, the Plan Administrator (as defined in the Deferred Compensation Plan) selects plan participants in its sole discretion and notifies such individuals that they have been selected to participate in the Deferred Compensation Plan for such year. Participation is mandatory for those employees selected by the Plan Administrator to be participants. An individual, if selected, may not decline to participate in the Deferred Compensation Plan and an individual who is not so selected may not elect to participate in the Deferred Compensation Plan. The selection of participants is made on an annual basis; an individual selected to participate in the Deferred Compensation Plan for a given year may not necessarily be selected to participate in a subsequent year. For 2015, all employees other than Mr. Schwarzman, who does not receive an annual cash bonus payment, were deemed eligible to participate in the Deferred Compensation Plan, with the deferred amount (if any) determined in accordance with the

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table described below. Accordingly, Messrs. James, Hill, Chae and Finley each participated in the Deferred Compensation Plan for 2015. However, Messrs. James and Chae did not have any portion of their respective 2015 annual cash bonus payments deferred under the Deferred Compensation Plan as their mandatory contributions to our investment funds fully offset their total annual incentive compensation. In addition, since Mr. Tosi resigned from the firm prior to the determination and payment of the annual cash bonuses, he was not eligible to receive an annual cash bonus or to participate in the Deferred Compensation Plan with respect to fiscal 2015.

In respect of the deferred portion of his or her annual cash bonus payment, each participant receives deferral units which represent rights to receive in the future a specified amount of common units or Blackstone Holdings Partnership Units or other equity-based awards under our 2007 Equity Incentive Plan, subject to vesting provisions described below. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds, and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. For deferrals of 2015 annual cash bonus payments, the deferral percentage was calculated on the basis set forth in the following table (or such other table that may be adopted by the Plan Administrator).

<u>Portion of Annual Incentive</u>	<u>Marginal Deferral Rate Applicable to Such Portion</u>	<u>Effective Deferral Rate for Entire Annual Bonus (a)</u>
\$0 - 100,000	0%	0.0%
\$100,001 - 200,000	15%	7.5%
\$200,001 - 500,000	20%	15.0%
\$500,001 - 750,000	30%	20.0%
\$750,001 - 1,250,000	40%	28.0%
\$1,250,001 - 2,000,000	45%	34.4%
\$2,000,001 - 3,000,000	50%	39.6%
\$3,000,001 - 4,000,000	55%	43.4%
\$4,000,001 - 5,000,000	60%	46.8%
\$5,000,000 +	65%	52.8%

(a) Effective deferral rates are shown for illustrative purposes only and are based on an annual cash payment equal to the maximum amount in the range shown in the far left column (which is assumed to be \$7,500,000 for the last range shown).

*Mandatory Deferral Awards* . Generally, deferral units are satisfied by delivery of our common units in equal annual installments over the deferral period, which was three years for grants made in respect of years prior to 2012 and four years for grants made in respect of years 2012 and 2013 (with no partial-year delivery). In 2015, the Deferred Compensation Plan was amended to return the deferral period to three years for grants made in respect of 2014 and subsequent years. Delivery of our common units underlying vested deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, any undelivered deferral units (vested and unvested) will become immediately deliverable. With respect to deferral units granted in respect of 2013 and prior years, if the participant's employment is terminated without cause or because of resignation, qualifying retirement or disability, the participant's deferral units will continue to be delivered over the applicable deferral period. However, if, following a termination of employment without cause or because of resignation, qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement (or, in the case of a resignation, engages in a competitive business (as such term is defined in his or her employment agreement)), then any deferral units that remain undelivered as of the date of such violation, will be immediately forfeited. In 2015, the Deferred Compensation Plan was amended to modify the terms

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of the mandatorily deferred restricted common units to provide that unvested bonus deferral awards in respect of 2014 and subsequent years will now be forfeited upon resignation, will immediately vest and be delivered if the participant's employment is terminated without cause or because of disability and, in connection with a qualifying retirement, will continue to vest and be delivered over the applicable deferral period, subject to forfeiture if the participant violates any applicable provision of his her employment agreement or engages in any competitive activity (as such term is defined in the Deferred Compensation Plan).

The 49,925 and 29,892 deferred restricted common units granted under the Deferred Compensation Plan to Mr. Tosi and Mr. Finley in 2015 for 2014 performance, respectively, vest 33.3% on January 16, 2016, 33.3% on January 16, 2017 and 33.4% on January 16, 2018. The 40,378 deferred restricted common units granted under the Deferred Compensation Plan to Mr. Finley in 2016 for 2015 performance vest 33.3% on January 20, 2017, 33.3% on January 20, 2018 and 33.4% on January 20, 2019.

*Premium Awards* . Prior to deferrals in respect of 2014 performance, each plan participant was eligible to receive a premium award in the amount equal to a percentage of his or her deferral amount. The percentage was selected by the Plan Administrator. Generally, except in respect of 2012, the premium award percentage was 20%. Generally, the premium award percentage in respect of 2012 was 25%. The deferral amount plus the premium award yielded the total amount of deferral units that a participant was awarded for any given year. The entire premium portion of such deferral units is, with specified exceptions, subject to continued employment of such participant through the end of the applicable deferral period and vests and is delivered at the end of such deferral period. As is the case with respect to the mandatory deferral units, delivery of our common units underlying the vested premium portion of the participant's deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the premium portion of the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. In connection with a participant's termination of employment without cause or because of resignation, the entire unvested premium portion of the participant's deferral units will be immediately forfeited. In connection with a participant's termination of employment due to qualifying retirement, 50% of the unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. In connection with a participant's termination of employment due to disability, the entire unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. However, if, following a termination of employment because of qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement, including specified restrictive covenants such as a non-compete, then any such deferral units that remain undelivered as of the date of such violation will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, the entire unvested premium portion of the participant's deferral units will immediately vest and become deliverable. In 2015, the Deferred Compensation Plan was amended to replace the premium award component of the plan with the payment of current cash distribution equivalents on both vested and unvested deferred awards beginning with awards granted in 2015 in respect of 2014. As a result, no premium awards were granted in 2016 in respect of 2015 performance.

The 166,537 deferred restricted common units granted to Mr. Hill as premium awards under the Deferred Compensation Plan, vest 50.2% on January 1, 2017 and 49.8% on January 13, 2018.

**Potential Payments Upon Termination of Employment or Change in Control**

Upon a change of control event where any person (other than a person approved by our general partner) becomes our general partner or a termination of employment because of death, any unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by any of our named executive officers will automatically be deemed vested as of immediately prior to such occurrence of such change of control or such termination of employment. Had such a change of control or such a termination of employment occurred on December 31, 2015, the last business day of 2015, each of our named executive officers would have vested in the following numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted

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common units, having the following values based on our closing market price of \$29.24 per Blackstone common unit on December 31, 2015, other than the deferred restricted common units granted in 2016 in respect of 2015 performance, which are valued as of the date of their grant: Messrs. Schwarzman, James and Chae had no outstanding unvested units at December 31, 2015; Mr. Hill – 23,932 deferred restricted Blackstone Holdings Partnership Units and 166,537 deferred restricted common units, representing the premium portion of his deferred restricted common units, with an aggregate value of \$5,569,313 and Mr. Finley – 239,443 deferred restricted Blackstone Holdings Partnership Units and 70,745 deferred restricted common units with an aggregate value of \$8,848,222. In addition, the Deferred Compensation Plan provides that upon a change in control or termination of the participant’s employment because of death, any fully vested but undelivered deferred restricted common units will become immediately deliverable. Therefore, had a change of control or such termination of employment occurred on December 31, 2015, Mr. James and Mr. Hill would also have been entitled to accelerated delivery of the 20,497 and 531,134 deferred restricted common units, respectively, that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility. Mr. Hill would also have been entitled to accelerated delivery of his 478,192 mandatorily deferred and vested, but undelivered, deferred restricted common units granted to him under the Deferred Compensation Plan outstanding as of December 31, 2015.

Upon a termination of employment because of disability, any unvested Blackstone Holdings Partnership Units, unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units granted under the Deferred Compensation Plan in respect of 2014 and subsequent years will also automatically be deemed vested. However, with respect to the premium portion of deferred restricted common units granted under the Deferred Compensation Plan in respect of 2013 and prior years, in connection with a participant’s termination of employment due to disability, such deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to the participant not violating any applicable provision of his or her employment agreement. Therefore, had a termination of employment because of disability occurred on December 31, 2015, each of our named executive officers would have vested in the numbers of deferred restricted Blackstone Holdings Partnership Units set forth in the paragraph immediately above, having the values set forth above, but Mr. Hill would not have immediately vested in his 166,537 unvested deferred restricted common units, which represent the premium portion of his deferred restricted common units. In addition, Mr. James and Mr. Hill would also have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth in the paragraph immediately above that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility.

In connection with a named executive officer’s termination of employment due to qualifying retirement, a named executive officer will generally vest in 50% of their unvested Blackstone Holdings Partnership Units or unvested deferred restricted Blackstone Holdings Partnership Units granted in 2015 and prior years. (See “Non-Competition and Non-Solicitation Agreements—Retirement.”) As of December 31, 2015, Mr. Hill and Mr. James were retirement eligible. Mr. James had no outstanding unvested units at December 31, 2015. If Mr. Hill had retired on December 31, 2015, then Mr. Hill would have vested in 11,966 deferred restricted Blackstone Holdings Partnership Units with a value of \$349,886 based on our closing market price of \$29.24 per Blackstone common unit on December 31, 2015. In addition, if Mr. Hill had retired on December 31, 2015, then the Deferred Compensation Plan provides that 50% of the unvested premium portion of his deferred restricted common units would continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to forfeiture of any deferral units which remain undelivered as of the date of the breach of any applicable provision of his employment agreement.

Upon a termination of Mr. Finley’s employment without cause, the unvested deferred restricted Blackstone Holdings Partnership Units granted to him in 2013 and 2014 and the deferred restricted common units grant to him under the Deferred Compensation Plan in respect of 2015 and 2014 will become fully vested. Had such a termination without cause occurred on December 31, 2015, Mr. Finley would have vested in the following numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted common units, having the following values based on our closing market price of \$29.24 per Blackstone common unit on December 31, 2015,

other than the deferred restricted common units granted in 2016 in respect of 2015 performance, which are valued as of the date of their grant: Mr. Finley – 43,327 deferred restricted Blackstone Holdings Partnership Units and 70,745 deferred restricted common units with an aggregate value of \$3,113,790. In addition, Mr. James and Mr. Hill would also have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth above in the first paragraph of this section that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility.

In addition, except as described below, unvested carried interest in our carry funds is generally forfeited upon termination of employment. Upon the death or disability of any named executive officer who participates in the carried interest of our carry funds, the named executive officer will be deemed 100% vested in any unvested portion of carried interest in our carry funds. Furthermore, any named executive officer that is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See “— Non-Competition and Non-Solicitation Agreements—Retirement.”) As of December 31, 2015, Mr. James and Mr. Hill were retirement eligible for purposes of their carried interest allocations.

In addition, pursuant to Mr. Schwarzman’s Founding Member Agreement described above under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015—Schwarzman Founding Member Agreement,” following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including an assistant during the ten-year period following his retirement and a car and driver during the three-year period following his retirement. As of December 31, 2015, the aggregate present value of these expected costs was \$1.3 million, for which approximately \$158,000, \$180,000 and \$200,000 were expensed for financial statement purposes in each of the years ended December 31, 2015, 2014 and 2013, respectively.

#### ***Withdrawal Agreement with Laurence Tosi***

On July 24, 2015, Blackstone announced that Laurence Tosi resigned from his position as Chief Financial Officer of Blackstone Group Management L.L.C., our general partner, effective August 7, 2015 (the “Effective Date”).

In connection with his resignation, Mr. Tosi entered into a withdrawal agreement with Blackstone on November 3, 2015, which includes the terms summarized below. Under the terms of the withdrawal agreement, Mr. Tosi agreed to enter into a general release of claims in favor of Blackstone and its related parties and affirmed his non-competition, non-solicitation, non-disparagement and confidentiality covenants contained in his non-competition and non-solicitation agreement. All payments and benefits are subject to Mr. Tosi’s timely execution and non-revocation of the release and compliance with these restrictive covenants.

Under the terms of the withdrawal agreement, Mr. Tosi received \$500,000 payable in a lump-sum cash payment within 15 days following the date of his agreement and the unvested portion of Mr. Tosi’s carried interest in (1) all Blackstone Innovations LLC and Blackstone Innovations (Cayman) III LP investments made through the Effective Date and (2) Blackstone’s investment in Ipreo Holdings, LLC was vested. Except as described above, all of Mr. Tosi’s other unvested carried interest was forfeited as of the Effective Date.

In addition, under the terms of the withdrawal agreement, Mr. Tosi’s outstanding Blackstone unvested equity awards were treated as follows:

- 49,925 deferred restricted common units held by Mr. Tosi pursuant to the terms of Blackstone’s Sixth Amended and Restated Bonus Deferral Plan, as amended, will, notwithstanding Mr. Tosi’s withdrawal, continue to vest and be settled in accordance with their terms, subject to Mr. Tosi’s continued compliance with the non-competition and non-solicitation agreement through each applicable vesting date; and
- Mr. Tosi forfeited 576,837 unvested units of Blackstone and/or Blackstone Holdings with a value, as of the Effective Date of \$21.8 million. Nonetheless, Blackstone agreed to provide Mr. Tosi with (1) quarterly payments from the Effective Date through February 1, 2016 equal to quarterly distributions to be made in

respect of 125,448 Blackstone Holdings Partnership Units during such time and (2) a modification to his award of 344,154 unvested deferred restricted Blackstone Holdings Partnership Units granted on January 26, 2011, which was scheduled to cliff vest in full on January 1, 2016. Given Mr. Tosi was only approximately five months away from satisfying the service requirement for this award at the time of his departure, we determined it was appropriate to allow him to vest in a number of vested Blackstone Holdings Partnership Units intended to approximate the grant date fair value of the original award. The actual number of vested Blackstone Holdings Partnership Units was based on fair market value equal to \$5,000,000 using a 60-day day volume weighted average price as of February 1, 2016. The quarterly distribution payments and the modification to his January 26, 2011 award were both subject to Mr. Tosi's compliance with the non-competition and non-solicitation agreement. If the number of Blackstone Holdings Partnership Units in clause (2) was greater than the number of Blackstone Holdings Partnership Units in clause (1), then Mr. Tosi would be entitled to an additional cash payment equal to distributions from the Effective Date through February 1, 2016 with respect to such excess number of Blackstone Holdings Partnership Units. If the number of Blackstone Holdings Partnership Units in clause (1) was greater than the number of Blackstone Holdings Partnership Units in clause (2), then the number of Blackstone Holdings Partnership Units Mr. Tosi would be entitled to receive would be reduced by a number of units with a value equal to the excess of the distributions Mr. Tosi received with respect to such excess number of Blackstone Holdings Partnership Units. Based on the 60-trading day volume weighted average price as of February 1, 2016, Mr. Tosi received 176,604 vested Blackstone Holdings Partnership Units and since the number of units was greater than 125,448 he also received an additional cash payment of \$24,090.

### **Non-Competition and Non-Solicitation Agreements**

Upon the consummation of our initial public offering, we entered into a non-competition and non-solicitation agreement with our founder, our other senior managing directors, most of our other professional employees and specified senior administrative personnel to whom we refer collectively as "Contracting Employees." Contracting Employees who have joined the firm after our initial public offering, such as Mr. Tosi and Mr. Finley, have also executed non-competition and non-solicitation agreements. The following are descriptions of the material terms of each such non-competition and non-solicitation agreement. With the exception of the few differences noted in the description below, the terms of each non-competition and non-solicitation agreement are generally in relevant part similar.

*Full-Time Commitment* . Each Contracting Employee agrees to devote substantially all of his or her business time, skill, energies and attention to his or her responsibilities at Blackstone in a diligent manner. Our founder Mr. Schwarzman has agreed that our business will be his principal business pursuit and that he will devote such time and attention to the business of the firm as may be reasonably requested by us.

*Confidentiality* . Each Contracting Employee is required, whether during or after his or her employment with us, to protect and only use "confidential information" in accordance with strict restrictions placed by us on its use and disclosure. (Every employee of ours is subject to similar strict confidentiality obligations imposed by our Code of Conduct applicable to all Blackstone personnel.)

*Notice of Termination* . Each Contracting Employee is required to give us prior written notice of his or her intention to leave our employ — six months in the case of Mr. Schwarzman, 90 days for all of our other senior managing directors and between 30 and 60 days in the case of all other Contracting Employees.

*Garden Leave* . Upon his or her voluntary departure from our firm, a Contracting Employee is required to take a prescribed period of "garden leave." The period of garden leave is 90 days for our non-founding senior managing directors and between 30 and 60 days for all other Contracting Employees. During this period the Contracting Employee will continue to receive some of his or her Blackstone compensation and benefits, but is prohibited from commencing employment with a new employer until the garden leave period has expired. The period of garden

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leave for each Contracting Employee will run coterminously with the non-competition Restricted Period that applies to him or her as described below. Our founder Mr. Schwarzman is subject to non-competition covenants but not garden leave requirements.

*Non-Competition* . During the term of employment of each Contracting Employee, and during the Restricted Period (as such term is defined below) immediately thereafter, he or she will not, directly or indirectly:

- engage in any business activity in which we operate, including any competitive business,
- render any services to any competitive business, or
- acquire a financial interest in or become actively involved with any competitive business (other than as a passive investor holding minimal percentages of the stock of public companies).

“Competitive business” means any business that competes, during the term of employment through the date of termination, with our business, including any businesses that we are actively considering conducting at the time of the Contracting Employee’s termination of employment, so long as he or she knows or reasonably should have known about such plans, in any geographical or market area where we or our affiliates provide our products or services.

*Non-Solicitation* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit any of our employees to leave their employment with us, or hire any such employee who was employed by us as of the date of his or her termination or who left employment with us within one year prior to or after the date of his or her termination. Additionally, each Contracting Employee may not solicit or encourage to cease to work with us any consultant or senior advisers that he or she knows or should know is under contract with us.

In addition, during the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit the business of any client or prospective client of ours with whom he or she, employees reporting to him or her, or anyone whom he or she had direct or indirect responsibility over had personal contact or dealings on our behalf during the three-year period immediately preceding his or her termination. Contracting Employees who are employed in our asset management businesses are subject to a similar non-solicitation covenant with respect to investors and prospective investors in our investment funds.

*Non-Interference and Non-Disparagement* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she may not interfere with business relationships between us and any of our clients, customers, suppliers or partners. Each Contracting Employee is also prohibited from disparaging us in any way.



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*Restricted Period* . For purposes of the foregoing covenants, the “Restricted Period” will be:

<u>Covenant</u>	<u>Stephen A. Schwarzman</u>	<u>Other Senior Managing Directors</u>	<u>Other Contracting Employees</u>
<i>Non-competition</i>	Two years after termination of employment.	One year (six months for senior managing directors who are eligible to retire, as defined below) after termination of employment.	Between 90 days and six months after termination of employment.
<i>Non-solicitation of Blackstone employees</i>	Two years after termination of employment.	Two years after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-solicitation of Blackstone clients or investors</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-interference with business relationships</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.

*Retirement* . Blackstone personnel are eligible to retire if they have satisfied either of the following tests: (a) one has reached the age of 65 and has at least five full years of service with our firm; or (b) generally one has reached the age of 55 and has at least five full years of service with our firm and the sum of his or her age plus years of service with our firm totals at least 65.

*Intellectual Property* . Each Contracting Employee is subject to customary intellectual property covenants with respect to works created, invented, designed or developed by him or her that are relevant to or implicated by his or her employment with us.

*Specific Performance* . In the case of any breach of the confidentiality, non-competition, non-solicitation, non-interference, non-disparagement or intellectual property provisions by a Contracting Employee, the breaching individual agrees that we will be entitled to seek equitable relief in the form of specific performance, restraining orders, injunctions or other equitable remedies.

**Director Compensation in 2015**

No additional remuneration is paid to our employees for services as a director of our general partner. In 2015, each of our non-employee directors received an annual cash retainer of \$150,000 and a grant of deferred restricted common units equivalent in value to \$150,000, with a grant date fair value determined as described in footnote (a) to the first table below. An additional \$30,000 annual cash retainer was paid to the Chairman of the Audit Committee during 2015. An additional \$25,000 annual cash retainer was paid to Mr. Light in connection with his service on the executive committee of Blackstone Group International Partners LLP.

The following table provides the director compensation for our directors for 2015:

Name	Fees Earned or Paid in Cash	Stock Awards (a) (b)	Total
Bennett J. Goodman (c)	\$ —	\$ —	\$ —
Jonathan D. Gray (c)	\$ —	\$ —	\$ —
The Right Honorable Brian Mulroney	\$ 150,000	\$ 150,739	\$ 300,739
William G. Parrett	\$ 180,000	\$ 149,577	\$ 329,577
Richard Jenrette	\$ 150,000	\$ 149,823	\$ 299,823
Jay O. Light	\$ 175,000	\$ 149,127	\$ 324,127
Rochelle B. Lazarus	\$ 150,000	\$ 149,988	\$ 299,988
Peter T. Grauer (d)	\$ —	\$ —	\$ —

- (a) The references to “stock” in this table refer to our deferred restricted common units. Amounts for 2015 represent the grant date fair value of stock awards granted in the year, computed in accordance with GAAP, pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data.” These deferred restricted common units vest, and the underlying Blackstone common units will be delivered, on the first anniversary of the date of the grant, subject to the outside director’s continued service on the board of directors of our general partner.
- (b) Each of our non-employee directors was granted deferred restricted common units upon appointment as a director. In 2015, in connection with the anniversary of his or her initial grant, each of the following directors was granted deferred restricted common units: Mr. Mulroney — 3,556 units; Mr. Parrett — 4,667 units; Mr. Jenrette — 3,648 units; Mr. Light — 4,363 units; and Ms. Lazarus — 3,837 units. The amounts of our non-employee directors’ compensation were approved by the board of directors of our general partner upon the recommendation of our founder following his review of directors’ compensation paid by comparable companies.

The following table provides information regarding outstanding unvested equity awards made to our directors as of December 31, 2015:

Name	Stock Awards (1)	
	Number of Shares or Units of Stock That Have Not Vested (2)	Market Value of Shares or Units of Stock That Have Not Vested (3)
The Right Honorable Brian Mulroney	3,613	\$ 105,644
William G. Parrett	4,667	\$ 136,463
Richard Jenrette	3,706	\$ 108,363
Jay O. Light	4,433	\$ 129,621
Rochelle B. Lazarus	3,898	\$ 113,978
Peter T. Grauer	—	\$ —

- (1) The references to “stock” or “shares” in this table refer to our deferred restricted common units.

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- (2) The number of units shown in this column reflect the equity award adjustments made in connection with the spin-off of the operations that historically constituted Blackstone's Financial Advisory segment, other than Blackstone's capital markets services business.
- (3) The dollar amounts shown in this column were calculated by multiplying the number of unvested deferred restricted common units held by the director by the closing market price of \$29.24 per Blackstone common unit on December 31, 2015, the last trading day of 2015.
- (c) Mr. Gray and Mr. Goodman are employees and no additional remuneration is paid to them for service as directors of our general partner. Mr. Gray's and Mr. Goodman's employee compensation is discussed in "—Item 13. Certain Relationships and Related Transactions, and Director Independence."
- (d) Mr. Grauer was appointed to Blackstone's Board of Directors on January 26, 2016. Upon his appointment he received a grant of 5,827 deferred restricted common units with a grant date fair value of \$153,192.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information regarding the beneficial ownership of our common units and Blackstone Holdings Partnership Units as of February 19, 2016 by:

- each person known to us to beneficially own 5% of any class of the outstanding voting securities of The Blackstone Group L.P.;
- each member of our general partner's board of directors;
- each of the named executive officers of our general partner; and
- all directors and executive officers of our general partner as a group.

The amounts and percentage of units beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of February 19, 2016. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise included, for purposes of this table, the principal business address for each such person is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

<u>Name of Beneficial Owner</u>	<u>Common Units, Beneficially Owned</u>		<u>Blackstone Holdings Partnership Units Beneficially Owned (a)</u>	
	<u>Number</u>	<u>% of Class</u>	<u>Number</u>	<u>% of Class</u>
<b>5% Unitholders:</b>				
Janus Capital Management LLC (b)	30,036,605	5.3%	—	—
FMR LLC (c)	42,719,517	7.6%	—	—
<b>Directors and Executive Officers (d) (e)</b>				
Stephen A. Schwarzman (f)(g)	—	—	231,924,793	45.5%
Hamilton E. James (g)	6,833	*	32,180,300	6.3%
J. Tomilson Hill (g)(h)	1,998,793	*	14,445,085	2.8%
Bennett J. Goodman (g)(h)	1,573,278	*	2,850,387	*
Jonathan D. Gray (g)	—	—	40,585,300	8.0%
Michael S. Chae (g)	—	—	5,831,432	1.1%
Laurence A. Tosi	16,906	*	495,659	*
John G. Finley	10,122	*	456,092	*
The Right Honorable Brian Mulroney	146,066	*	—	—
William G. Parrett	64,937	*	—	—
Richard Jenrette	40,500	*	—	—
Jay O. Light	39,588	*	—	—
Rochelle B. Lazarus	23,528	*	—	—
Peter T. Grauer	—	—	—	—
All executive officers and directors as a group (14 persons)	3,989,285	*	328,612,964	64.5%

\* Less than one percent

- (a) Subject to certain requirements and restrictions, the partnership units of Blackstone Holdings are exchangeable for common units of The Blackstone Group L.P. on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. See “Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement.” Beneficial ownership of Blackstone Holdings Partnership Units reflected in this table has not been also reflected as beneficial ownership of the common units of The Blackstone Group L.P. for which such units may be exchanged.
- (b) Reflects units beneficially owned by Janus Capital Management LLC based on the Schedule 13G filed by Janus Capital on February 16, 2016. The address of Janus Capital Management is 151 Detroit Street, Denver, Colorado 80206.
- (c) Reflects units beneficially owned by FMR, LLC and its subsidiaries based on the Schedule 13G filed by FMR, LLC on February 12, 2016. The address of FMR, LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (d) The units beneficially owned by the directors and executive officers reflected above do not include the following number of units that will be delivered to the respective individual more than 60 days after February 19, 2016: Mr. James — 13,664 deferred restricted common units; Mr. Hill — 23,932 deferred restricted Blackstone Holdings Partnership Units and 875,512 deferred restricted common units; Mr. Goodman — 4,594,109 deferred restricted Blackstone Holdings Partnership Units; Mr. Gray — 46,814 deferred restricted common units; Mr. Tosi — 33,812 deferred restricted common units; Mr. Finley — 239,443 deferred restricted Blackstone Holdings Partnership Units and 60,623 deferred restricted common units; The Right Honorable Mr. Mulroney — 3,613 deferred restricted common units; Mr. Parrett — 4,667 deferred restricted common units; Richard Jenrette — 3,706 deferred restricted common units; Ms. Lazarus — 3,898 deferred restricted common units; Mr. Light — 4,433 deferred restricted common units; and all other executive officers and directors as a group — 148,370 deferred restricted Blackstone Holdings Partnership Units and 62,434 deferred restricted common units.

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- (e) The Blackstone Holdings Partnership Units shown in the table above include the following number of vested units being held back under our minimum retained ownership requirements that are required to be held throughout employment with the firm and generally for one year following termination of employment: Mr. Schwarzman — 58,054,241 Blackstone Holdings Partnership Units; Mr. James — 14,648,744 Blackstone Holdings Partnership Units; Mr. Hill — 4,654,018 Blackstone Holdings Partnership Units; Mr. Goodman — 1,081,870 Blackstone Holdings Partnership Units; Mr. Gray — 11,477,971 Blackstone Holdings Partnership Units; Mr. Chae — 3,182,160 Blackstone Holdings Partnership Units; Mr. Tosi — 363,206 Blackstone Holdings Partnership Units; Mr. Finley — 128,024 Blackstone Holdings Partnership Units; and all other executive officers and directors as a group — 107,390 Blackstone Holdings Partnership Units.
- (f) On those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, holds a special voting unit in The Blackstone Group L.P. that provides it with an aggregate number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Blackstone Holdings Partnership Units held by the limited partners of Blackstone Holdings on the relevant record date and entitles it to participate in the vote on the same basis as our common unitholders. Our senior managing directors have agreed in the limited liability company agreement of Blackstone Partners L.L.C. that our founder, Mr. Schwarzman, will have the power to determine how the special voting unit held by Blackstone Partners L.L.C. will be voted. Following the withdrawal, death or disability of Mr. Schwarzman (and any successor founder), this power will revert to the members of Blackstone Partners L.L.C. holding a majority in interest in that entity. The limited liability company agreement of Blackstone Partners L.L.C. provides that at such time as Mr. Schwarzman should cease to be a founding member, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of Blackstone Partners L.L.C. If Blackstone Partners L.L.C. directs us to do so, we will issue special voting units to each of the limited partners of Blackstone Holdings, whereupon each special voting unitholder will be entitled to a number of votes that is equal to the number of vested and unvested Blackstone Holdings Partnership Units held by such special voting unitholder on the relevant record date.
- (g) The Blackstone Holdings Partnership Units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Schwarzman — 1,666,666 units held in various trusts for which Mr. Schwarzman is the investment trustee, Mr. James — 10,657,207 units held in various trusts for which Mr. James and his brother are trustees (but Mr. James does not have or share investment control with respect to the units), Mr. Hill — 5,636,348 units held in various trusts for which Mr. Hill's spouse is the investment trustee and 2,683,308 units held in a family limited liability company, Mr. Chae — 150,070 units held in a trust for which Mr. Chae is the investment trustee and Mr. Gray — 4,566,437 units held in a trust for which Mr. Gray is the investment trustee, (b) the following units held in grantor retained annuity trusts for which the named executive officer or director, as applicable, is the investment trustee: Mr. Schwarzman — 2,365,163 units, and Mr. Gray — 15,565,132 units, and (c) the following units held by a corporation for which the named executive officer is a controlling shareholder: Mr. Schwarzman — 1,438,529 units and Mr. Goodman — 1,737,550 units owned by family limited liability companies. Mr. Schwarzman also directly, or through a corporation for which he is the controlling shareholder, beneficially owns an additional 364,278 partnership units in each of Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. In addition, with respect to Mr. Schwarzman, the above table excludes partnership units of Blackstone Holdings held by his children or in trusts for the benefit of his family as to which he has no voting or investment control.
- (h) The Blackstone common units shown in the table above for each named executive officer and director include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership, Mr. Hill — 1,698,442 units held in two family limited liability companies, Mr. Goodman — 923,638 units held in family limited liability companies.

In addition, as of February 19, 2016, Beijing Wonderful Investments, an investment vehicle established and controlled by the People's Republic of China, holds 59,083,468 of our non-voting common units and may from time to time make open market purchases or sales of our voting common units.

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The table set forth below provides information concerning the awards that may be issued under the 2007 Equity Incentive Plan as of December 31, 2015:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (b)
Equity Compensation Plans Approved by Security Holders	66,966,766	—	134,535,525
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>66,966,766</b>	<b>—</b>	<b>134,535,525</b>

- (a) Reflects the outstanding number of our deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units granted under the 2007 Equity Incentive Plan as of December 31, 2015.
- (b) The aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of our common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of our common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). As of January 1, 2016, pursuant to this formula, 168,600,140 units, which is equal to 0.15 times the number of our common units and Blackstone Holdings Partnership Units outstanding on December 31, 2015, were available for issuance under the 2007 Equity Incentive Plan. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by the 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE****Transactions with Related Persons*****Tax Receivable Agreements***

We used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the pre-IPO owners. In addition, holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the Blackstone Holdings partnerships to effect an exchange for a common unit. Blackstone Holdings I L.P. and Blackstone Holdings II L.P. have made an election under Section 754 of the Internal Revenue Code effective for each taxable year in which an exchange of partnership units for common units occurs, which may result in an

adjustment to the tax basis of the assets of such Blackstone Holdings partnerships at the time of an exchange of partnership units. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of Blackstone's wholly owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future. One of the subsidiaries of The Blackstone Group L.P. which is a corporate taxpayer has entered into a tax receivable agreement with holders of Blackstone Holdings Partnership Units that provides for the payment by the corporate taxpayer to such holders of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of these increases in tax basis and of certain other tax benefits related to our entering into tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreement. Additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayer would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreement. A limited partner of Blackstone Holdings may also elect to exchange his or her Blackstone Holdings Partnership Units in a tax-free transaction where the limited partner is making a charitable contribution. In such a case, the exchange will not result in an increase in the tax basis of the assets of Blackstone Holdings and no payments will be made under the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of our IPO and will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayers exercise their right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase and exchanges will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$402.4 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

There was a reduction of \$82.7 million to the tax receivable agreement liability to the pre-IPO owners and others mentioned above that resulted primarily from the October 1, 2015 spin-off of the financial and strategic advisory services, restructuring services and reorganization advisory services and Park Hill Group businesses.

Subsequent to December 31, 2015, payments totaling \$79.0 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2014 taxable year. Those payments included payments of \$10.8 million to Stephen A. Schwarzman and investment vehicles controlled by relatives of Mr. Schwarzman; \$2.3 million to Hamilton E. James and a trust for which Mr. James is the investment trustee; \$1.2 million to J. Tomilson Hill and a trust for which Mr. Hill is the investment trustee; \$0.7 million to Michael S. Chae; and \$0.2 million to Bennett J. Goodman and a limited liability company controlled by a family member of Mr. Goodman.

In addition, the tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such transaction) would be

based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the benefits arising from the increased tax deductions and tax basis and other similar benefits. Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis and other similar benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by an exchanging or selling holder of Blackstone Holdings Partnership Units, under the tax receivable agreement. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under a tax receivable agreement and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase the tax liability of a holder of Blackstone Holdings Partnership Units without giving rise to any rights of a holder of Blackstone Holdings Partnership Units to receive payments under any tax receivable agreements.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the corporate taxpayers will not be reimbursed for any payments previously made under a tax receivable agreement. As a result, in certain circumstances, payments could be made under a tax receivable agreement in excess of the corporate taxpayers' cash tax savings.

#### ***Registration Rights Agreement***

In connection with the restructuring and IPO, we entered into a registration rights agreement with our pre-IPO owners pursuant to which we granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act common units delivered in exchange for Blackstone Holdings Partnership Units or common units (and other securities convertible into or exchangeable or exercisable for our common units) otherwise held by them. In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the registration rights agreement. Under the registration rights agreement, we agreed to register the exchange of Blackstone Holdings Partnership Units for common units by our holders of Blackstone Holdings Partnership Units. In June 2008, we filed a registration statement on Form S-3 with the Securities and Exchange Commission to cover future issuances from time to time of up to 818,008,105 common units to holders of Blackstone Holdings Partnership Units upon exchange of up to an equal number of such Blackstone Holdings Partnership Units. In addition, our founder, Stephen A. Schwarzman, has the right to request that we register the sale of common units held by holders of Blackstone Holdings Partnership Units an unlimited number of times and may require us to make available shelf registration statements permitting sales of common units into the market from time to time over an extended period. In addition, Mr. Schwarzman has the ability to exercise certain piggyback registration rights in respect of common units held by holders of Blackstone Holdings Partnership Units in connection with registered offerings requested by other registration rights holders or initiated by us.

#### ***Swift River Investments***

Swift River Investments, Inc. ("Swift River") is a private family investment firm that manages capital on behalf of our President, Chief Operating Officer and Director, Hamilton E. James, his brother, David R. James, and members of their families. While Hamilton E. James has a majority economic interest in Swift River, the day-to-day business of Swift River is managed by David R. James.

On August 24, 2015, Ipreo, a provider of data, market intelligence and productivity solutions to capital markets and corporate professions, completed the acquisition of iLevel Solutions LLC ("iLevel"), a business that provides private equity software and advanced portfolio monitoring software solutions to private equity firms and other institutions, including Blackstone. Funds managed by Blackstone's private equity business own Ipreo jointly with another sponsor. Prior to the acquisition, and as previously disclosed, Blackstone and Swift River were the largest



shareholders in iLevel, with approximately 21% and 24% equity interests, respectively. We took a number of measures to address any potential conflict of interest relating to the transaction, including that Mr. Hamilton E. James did not participate in the negotiation and execution of the transaction for any party. Further, the non-Blackstone and non-Swift River representatives to the iLevel board, led by the independent chairman of that board, negotiated the transaction on behalf of iLevel, and the Blackstone directors to the Ipreo board recused themselves from board decisions relating to the transaction. The transaction was reviewed and approved by the Conflicts Committee of the board of directors of our general partner.

***Tsinghua University Education Foundation***

As part of an initiative announced in 2013, Mr. Schwarzman, through the Stephen A. Schwarzman Education Foundation, personally committed \$100 million to create and endow a post-graduate scholarship program at Tsinghua University in Beijing, entitled “Schwarzman Scholars,” and fund the construction of a residential and academic building. He is leading a fundraising campaign to raise \$450 million to support the “Schwarzman Endowment Fund.” The Tsinghua University Education Foundation (“TUEF”) will hold the Schwarzman Endowment Fund and has agreed to delegate management of the fund to Blackstone. We have agreed that TUEF, and certain entities affiliated with TUEF, will not be required to pay Blackstone a management fee for managing the Schwarzman Endowment Fund and, to the extent Blackstone allocates and invests assets of the Schwarzman Endowment Fund in our funds, which may take the form of funded or unfunded general partner commitments to our investment funds, we anticipate that such investments will be subject to reduced or waived management fees and/or carried interest.

***Executive Advisor Agreement with Andrew Lapham***

Since April 17, 2014, Andrew Lapham has been an Executive Advisor to Blackstone. In his role as an Executive Advisor, Mr. Lapham focuses primarily on sourcing and evaluating the firm’s investment opportunities in Canada. Mr. Lapham is the son-in-law of Mr. Mulroney, who has been a member of the board of directors of our general partner since 2007. Pursuant to the terms of his Executive Advisor Agreement, in respect of his services in 2015, Mr. Lapham is entitled to a \$350,000 annual retainer and a bonus, which for 2015 was \$350,000 and will be paid in 2016. With respect to each investment sourced by him, Mr. Lapham is entitled to receive a transaction fee and, subject to a required capital contribution by Mr. Lapham, a profit sharing percentage of the net profits realized from such investment by the relevant fund. In 2015, we paid Mr. Lapham \$500,000, which represents his annual retainer and a \$150,000 bonus paid in 2015 in respect of his services in 2014.

***Bennett J. Goodman***

On February 24, 2015, Bennett J. Goodman was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Goodman joined Blackstone in 2008 and is a Senior Managing Director and Co-Founder of GSO Capital Partners. For 2015, Mr. Goodman received a base salary of \$350,000 and an annual cash bonus payment of \$3,207,583. The cash payment was based upon the performance of the Credit segment, including the contribution of all current and past funds within the segment. The ultimate cash payment to Mr. Goodman was, however, determined in the discretion of Mr. Schwarzman and Mr. James.

Mr. Goodman also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Goodman in respect of carried interest in our carry funds primarily relates to Mr. Goodman’s participation in the credit funds. The amount of cash payments in respect of carried interest or incentive fee allocations to Mr. Goodman for 2015 was \$9,819,362. See “Executive Compensation — Compensation Elements for Named Executive Officers” in this report for additional discussion of the elements of our compensation program.

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In March 2015, Mr. Goodman also received a compensatory grant of 5,028,435 deferred restricted Blackstone Holdings Partnership Units with a grant date fair value of \$190,376,549. These deferred restricted Blackstone Holdings Partnership Units vest over eight years and, after including the additional units granted as required pursuant to the 2007 Equity Incentive Plan in connection with the spin-off the operations that historically constituted our Financial Advisory segment, other than our capital markets services business, vest as follows: 514,213 vested on January 1, 2016, 721,431 vesting on January 1, 2017, 679,986 units vesting on January 1, 2018 and the remainder vesting annually in substantially equal annual installments on January 1 of each year through January 1, 2023. This award represents a buyout of a significant portion of his estimated cash compensation during the eight-year vesting period of the award.

In February 2015, we agreed with the former owners of GSO, including Mr. Goodman, to settle in full our obligation to make further “earn out” payments to them arising from our redemption of profits interests that were issued to them in connection with our acquisition of GSO by making a payment in the form of a combination of vested and unvested restricted Blackstone Holdings Units. In connection therewith, Mr. Goodman received on March 26, 2015, 798,166 Blackstone Holdings Partnership Units (which included 199,542 units to be held in a family limited liability company), 122,385 of which immediately vested, 506,837 of which are to vest on December 31, 2016 and 168,944 of which are to vest on December 31, 2017. In April 2015, we issued Mr. Goodman 635,075 common units (which included 158,769 common units to be held in a family limited liability company) in satisfaction of a 2014 “earn out” payment owed to him and the other former owners of GSO.

***Jonathan D. Gray***

On February 24, 2012, Jonathan D. Gray was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Gray joined Blackstone in 1992 and is a Senior Managing Director and Global Head of Real Estate. For 2015, Mr. Gray received a base salary of \$350,000 and an annual cash bonus payment of \$25,370,948, net of his mandatory deferral pursuant to the Deferred Compensation Plan. The cash payment was based upon the performance of the Real Estate segment, including the contribution of all current and past funds within the segment dating back to before the IPO. The ultimate cash payment to Mr. Gray was, however, determined in the discretion of Mr. Schwarzman and Mr. James. On January 20, 2016, Mr. Gray was granted 46,814 deferred restricted common units with a grant date fair value of \$1,111,833, reflecting the portion of his annual cash bonus payment mandatorily deferred into deferred restricted common units pursuant to the Deferred Compensation Plan.

Mr. Gray also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Gray in respect of carried interest in our carry funds primarily relates to Mr. Gray’s participation in the real estate funds (which were formed both before and after the IPO). The amount of payments in respect of carried interest (whether in cash or in-kind) or incentive fee allocations to Mr. Gray for 2015 was \$90,377,009. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. In 2015, in connection with investment advisory services provided by Blackstone to BXMT, Mr. Gray was also allocated restricted shares of listed common stock of BXMT with a value of \$984,407 based on the closing price of BXMT’s common stock on the date of the award. These restricted shares will vest over three years with one-sixth of the shares vesting at the end of the second quarter after the date of the award and the remaining shares vesting in ten equal quarterly installments thereafter. See “Executive Compensation — Compensation Elements for Named Executive Officers” in this report for additional discussion of the elements of our compensation program.

**Blackstone Holdings Partnership Agreements**

As a result of the reorganization and the IPO, The Blackstone Group L.P. became a holding partnership and, through wholly owned subsidiaries, held equity interests in the five holdings partnerships (i.e., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.). On January 1, 2009, in order to simplify our structure and ease the related administrative burden

and costs, we effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. On October 1, 2015, Blackstone formed a new holding partnership, Blackstone Holdings AI L.P., which will hold certain operating entities and operate in a manner similar to the existing Blackstone Holdings Partnerships. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to (a) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P. prior to the January 2009 reorganization, (b) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. from January 1, 2009 through October 1, 2015 and (c) Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings AI L.P. subsequent to the October 2015 creation of Blackstone Holdings AI L.P.

Wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships have the right to determine when distributions will be made to the partners of Blackstone Holdings and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of Blackstone Holdings pro rata in accordance with the percentages of their respective partnership interests as described under "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy."

Each of the Blackstone Holdings Partnerships has an identical number of partnership units outstanding, and we use the terms "Blackstone Holdings Partnership Unit" or "partnership unit in/of Blackstone Holdings" to refer, collectively, to a partnership unit in each of the Blackstone Holdings Partnerships. The holders of partnership units in Blackstone Holdings, including The Blackstone Group L.P.'s wholly owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Blackstone Holdings. Net profits and net losses of Blackstone Holdings will generally be allocated to its partners (including The Blackstone Group L.P.'s wholly owned subsidiaries) pro rata in accordance with the percentages of their respective partnership interests as described under "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy." The partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions are computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). Tax distributions are made only to the extent all distributions from such partnerships for the relevant year are insufficient to cover such tax liabilities.

Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, Blackstone Holdings Partnership Units may be exchanged for The Blackstone Group L.P. common units as described under "— Exchange Agreement" below. In addition, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

See "— Item 11. Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2015 — Terms of Blackstone Holdings Partnership Units Granted in 2015 and Prior Years" for a discussion of vesting provisions applicable to Blackstone personnel in respect of the Blackstone Holdings Partnership Units received by them in the reorganization and for a discussion of minimum retained

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ownership requirements and transfer restrictions applicable to the Blackstone Holdings Partnership Units. The generally applicable vesting and minimum retained ownership requirements and transfer restrictions are outlined in the sections referenced in the preceding sentence. There may be some different arrangements for some individuals in some instances. In addition, we may waive these requirements and restrictions from time to time.

In addition, substantially all of our expenses, including substantially all expenses solely incurred by or attributable to The Blackstone Group L.P. but not including obligations incurred under the tax receivable agreement by The Blackstone Group L.P.'s wholly owned subsidiaries, income tax expenses of The Blackstone Group L.P.'s wholly owned subsidiaries and payments on indebtedness incurred by The Blackstone Group L.P.'s wholly owned subsidiaries, are borne by Blackstone Holdings.

#### **Exchange Agreement**

In connection with the reorganization and IPO, we entered into an exchange agreement with the holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries). In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the exchange agreement. Under the exchange agreement, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, each such holder of Blackstone Holdings Partnership Units (and certain transferees thereof) may up to four times each year (subject to the terms of the exchange agreement) exchange these partnership units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Under the exchange agreement, to effect an exchange a holder of partnership units in Blackstone Holdings must simultaneously exchange one partnership unit in each of the Blackstone Holdings Partnerships. As a holder exchanges its Blackstone Holdings Partnership Units, The Blackstone Group L.P.'s indirect interest in the Blackstone Holdings Partnerships will be correspondingly increased.

#### **Firm Use of Private Aircraft**

Certain entities controlled by Mr. Schwarzman wholly own aircraft that we use for business purposes in the course of our operations. Mr. Schwarzman paid for his respective ownership interests in the aircraft himself and bore his respective share of all operating, personnel and maintenance costs associated with their operation. The hourly payments we made for such use were based on current market rates. In 2015, we made payments of \$2.5 million for the use of such aircraft, which included \$0.7 million paid directly to the managers of the aircraft.

An entity jointly controlled by Mr. James and Mr. Gray wholly owns an airplane that we use for business purposes in the course of our operations. Each of Mr. James and Mr. Gray paid for his respective ownership interest in the aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we made for such use were based on current market rates. In 2015 we made payments of \$1.0 million to the manager of the aircraft for such use.

An entity controlled by Mr. Goodman, jointly with an entity controlled by another senior managing director of Blackstone, owns an airplane that we may use for business purposes in the course of our operations. Mr. Goodman paid for his ownership interest in the aircraft himself and bears his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we would make for any such use of the airplane owned by Mr. Goodman would be based on current market rates. In 2015, there was no such use.

#### **Investment in or Alongside Our Funds**

Our directors and executive officers may invest their own capital in or alongside our carry funds without being subject to management fees or carried interest. These investments may be made through the applicable fund general partner and fund a portion of the general partner capital commitments to our funds. In addition, our directors and

executive officers may invest their own capital in our funds of hedge funds and credit-focused funds that are structured as hedge funds, in some instances, not subject to management fees or carried interest. These investment opportunities are available to all of our senior managing directors and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. During the year ended December 31, 2015, our directors and executive officers (and, in some cases, certain investment trusts or other family vehicles or charitable organizations controlled by them or their immediate family members) had the following net contributions or net distributions relating to their personal investments (and the investments of any such trusts) in Blackstone-managed investment funds: Mr. Schwarzman, Mr. James, Mr. Hill, Mr. Gray, Mr. Light and Mr. Mulroney received net distributions of \$65.6 million, \$68.5 million, \$18.4 million, \$19.4 million, \$0.15 million, \$0.6 million, respectively, and Mr. Tosi, Mr. Goodman and Mr. Chae made net contributions of \$0.5 million, \$5.1 million and \$1.3 million, respectively.

#### **Statement of Policy Regarding Transactions with Related Persons**

The board of directors of our general partner has adopted a written statement of policy regarding transactions with related persons, which we refer to as our “related person policy.” Our related person policy requires that a “related person” (as defined as in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to the Chief Legal Officer of our general partner any “related person transaction” (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. The Chief Legal Officer will then promptly communicate that information to the board of directors of our general partner. No related person transaction will be consummated without the approval or ratification of the board of directors of our general partner or any committee of the board of directors consisting exclusively of disinterested directors. It is our policy that directors interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

#### **Indemnification of Directors and Officers**

Under our partnership agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our general partner; any departing general partner; any person who is or was an affiliate of a general partner or any departing general partner; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, the general partner or any departing general partner or any affiliate of ours or our subsidiaries, the general partner or any departing general partner; any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our general partner. We have agreed to provide this indemnification to the extent such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the partnership, and with respect to any alleged conduct resulting in a criminal proceeding against such person, to deny indemnification if such person had reasonable cause to believe that his or her conduct was unlawful. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

We will also indemnify any of our employees who personally becomes subject to a “clawback” obligation to one of our investment funds in respect of carried interest that we have received. See “Part I. Item 1. Business—Incentive Arrangements / Fee Structure.”

## Non-Competition and Non-Solicitation Agreements

We have entered into a non-competition and non-solicitation agreement with each of our professionals and other senior employees, including each of our executive officers. See “— Item 11. Executive Compensation—Non-Competition and Non-Solicitation Agreements” for a description of the material terms of such agreements.

## Director Independence

Because we are a publicly traded limited partnership, the NYSE rules do not require our general partner’s board to be made up of a majority of independent directors. All of the non-management directors of our general partner’s board of directors satisfy the independence requirements of the NYSE. These directors are Messrs. Grauer, Jenrette, Light, Mulrone and Parrett and Ms. Lazarus. Based on all relevant facts and circumstances, our general partner’s board of directors affirmatively determined that the independent directors have no material relationship with us or our general partner. In making a determination with regard to Mr. Grauer’s independence, our general partner’s board of directors considered Mr. Grauer’s role as a member of the Board of Trustees of the Inner-City Scholarship Fund and Mr. Schwarzman’s past and currently pledged contributions to the Inner-City Scholarship Fund. The board of directors of our general partner follows the following standards in determining director independence:

Under any circumstances, a director is not independent if:

- the director is, or has been within the preceding three years, employed by our general partner or us,
- an immediate family member of the director was employed as an executive officer of our general partner or us within the preceding three years,
- the director, or an immediate family member of that director, received within the preceding three years more than \$120,000 in any twelve-month period in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service),
- the director is a current partner or employee of a firm that is our internal or external auditor; the director has an immediate family member who is a current partner of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on our audit; or the director or an immediate family member of that director was within the last three years a partner or employee of such a firm and personally worked on our or a predecessor’s audit within that time,
- the director or an immediate family member is, or has been within the preceding three years, employed as an executive officer of another company where any of our general partner’s present executive officers at the same time serves or served on such other company’s compensation committee, or
- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the preceding three fiscal years, exceeds the greater of \$1,000,000 or two percent (2%) of the consolidated gross revenues of the other company.

The following commercial or charitable relationships will not be considered to be material relationships that would impair a director’s independence:

- if the director or an immediate family member of that director serves as an executive officer, director or trustee of a charitable organization, and our annual charitable contributions to that organization (excluding contributions by us under any established matching gift program) are less than the greater of \$1,000,000 or two percent (2%) of that organization’s consolidated gross revenues in its most recent fiscal year, and
- if the director or an immediate family member of that director (or a company for which the director serves as a director or executive officer) invests in or alongside of one or more investment funds or investment companies managed by us or any of our subsidiaries, whether or not fees or other incentive arrangements for us or our subsidiaries are borne by the investing person.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, the “Deloitte Entities”):

	Year Ended December 31, 2015		
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d)	Blackstone Funds, Transaction Related (e)
	(Dollars in Thousands)		
Audit Fees	\$ 10,305(a)	\$ 33,745	\$ —
Audit-Related Fees	\$ 207(b)	\$ 244	\$ 10,862
Tax Fees	\$ 538(c)	\$ 57,914	\$ 7,235

	Year Ended December 31, 2014		
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d)	Blackstone Funds, Transaction Related (e)
	(Dollars in Thousands)		
Audit Fees	\$ 8,636(a)	\$ 33,273	\$ —
Audit-Related Fees	\$ 235(b)	\$ 180	\$ 19,246
Tax Fees	\$ 414(c)	\$ 45,569	\$ 2,920
All Other Fees	\$ —	\$ 56	\$ —

- (a) Audit Fees consisted of fees for (1) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation, (2) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and (3) consents and other services related to SEC and other regulatory filings.
- (b) Audit-Related Fees include risk advisory services.
- (c) Tax Fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.
- (d) The Deloitte Entities also provide audit, audit-related and tax services (primarily tax compliance and related services) to certain Blackstone funds and other corporate entities. Also included in these amounts are audit and tax fees related to the spin-off of Blackstone’s financial advisory practice.
- (e) Audit-Related and Tax Fees included merger and acquisition due diligence services provided in connection with potential acquisitions of portfolio companies for investment purposes primarily to certain private equity and real estate funds managed by Blackstone in its capacity as the general partner. In addition, the Deloitte Entities provide audit, audit-related, tax and other services to the portfolio companies, which are approved directly by the portfolio company’s management and are not included in the amounts presented here.

Our audit committee charter, which is available on our website at <http://ir.blackstone.com> under “Corporate Governance,” requires the audit committee to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm in accordance with the audit and non-audit related services pre-approval policy. All services reported in the Audit, Audit-Related, Tax and All Other Fees categories above were approved by the audit committee.

**PART IV.**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this annual report.

1. *Financial Statements:*

See Item 8 above.

2. *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-141504) filed with the SEC on March 22, 2007).
3.2	Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K (File No. 001-33551) filed with the SEC on June 27, 2007).
3.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 3.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
3.2.2	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 4, 2011 (incorporated herein by reference to Exhibit 3.2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
4.1	Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.2	First Supplemental Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.3	Form of 6.625% Senior Note due 2019 (included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.6	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.7	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.6 hereto).
4.8	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.9	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.8 hereto).
4.10	Fifth Supplemental Indenture dated as of April 7, 2014 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 7, 2014).
4.11	Form of 5.000% Senior Note due 2044 (included in Exhibit 4.10 hereto).
4.12	Sixth Supplemental Indenture dated as of April 27, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 27, 2015).
4.13	Form of 4.450% Senior Note due 2045 (included in Exhibit 4.12 hereto).
4.14	Seventh Supplemental Indenture dated as of May 19, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., The Bank of New York Mellon, as trustee, and The Bank of New York Mellon, London Branch, as paying agent (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on May 19, 2015).
4.15	Form of 2.000% Senior Note due 2025 (included in Exhibit 4.14 hereto).
4.16*	Guarantor Joinder Agreement dated as of October 1, 2015 among Blackstone Holdings Finance Co. L.L.C., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., Blackstone Holdings AI L.P. and Citibank, N.A., as administrative agent.
4.17*	Eighth Supplemental Indenture dated as of October 1, 2015 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., Blackstone Holdings AI L.P. and The Bank of New York Mellon, as Trustee.
10.1	Amended and Restated Limited Partnership Agreement of Blackstone Holdings I L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings I L.P. party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.1.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings I L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.1.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.2	Amended and Restated Limited Partnership Agreement of Blackstone Holdings II L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings II L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.3	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III L.P., dated as of January 1, 2009, by and among Blackstone Holdings III GP L.L.C. and the limited partners of Blackstone Holdings III L.P. party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.3.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings III L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.4	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV L.P., dated as of January 1, 2009, by and among Blackstone Holdings IV GP L.P. and the limited partners of Blackstone Holdings IV L.P. party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.4.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings IV L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.5*	Amended and Restated Limited Partnership Agreement of Blackstone Holdings AI L.P., dated as of October 1, 2015.
10.6	Tax Receivable Agreement, dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc., Blackstone Holdings I L.P., Blackstone Holdings II L.P. and the limited partners of Blackstone Holdings I L.P. and Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.7*	Third Amended and Restated Exchange Agreement, dated as of October 1, 2015, among The Blackstone Group L.P., Blackstone Holdings AI L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto.
10.8	Registration Rights Agreement, dated as of June 18, 2007 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.9.1+	The Blackstone Group L.P. Amended and Restated 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on July 9, 2014).
10.10+	The Blackstone Group L.P. Sixth Amended and Restated Bonus Deferral Plan effective as of December 1, 2014 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.11+	Founding Member Agreement of Stephen A. Schwarzman, dated as of June 18, 2007, by and among Blackstone Holdings I L.P. and Stephen A. Schwarzman (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.12+	Agreement, dated as of June 9, 2008, between Blackstone Holdings I L.P. and Laurence A. Tosi (incorporated herein by reference to Exhibit 10.28 to the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2008).
10.13	Agreement, dated as of November 3, 2015, between Blackstone Holdings I L.P. and Laurence A. Tosi (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 001-33551) filed with the SEC on November 5, 2015).
10.14+	Form of Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 14, 2007). (Applicable to all executive officers other than Messrs. Schwarzman and Peterson).
10.15+	Form of Deferred Restricted Common Unit Award Agreement (Directors) (incorporated herein by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.16+	Form of Deferred Restricted Blackstone Holdings Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.17	Amended and Restated Credit Agreement dated as of March 23, 2010, as amended and restated as of May 29, 2014, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as guarantors, Citibank, N.A., as administrative agent and the lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on June 4, 2014).
10.18	Letter Agreement between The Blackstone Group L.P. and the Beijing Wonderful Investments Ltd, dated May 22, 2007 (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 4, 2007).
10.19	Letter Agreement, dated October 16, 2008, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd, amending the Letter Agreement, dated May 22, 2007, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd (incorporated herein by reference to Exhibit 10.16.1 to the Registrants' Current Report on Form 8-K filed with the SEC on October 16, 2008).
10.20+	Second Amended and Restated Limited Liability Company Agreement of BMA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BMA V L.L.C. (incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.21+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.21.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.22+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.23.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.20.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.24+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Management Associates IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Management Associates IV L.L.C. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.25+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates L.L.C. (incorporated herein by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates II L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates II L.L.C. (incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.27+	Second Amended and Restated Limited Liability Company Agreement of BREA IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA IV L.L.C. (incorporated herein by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.28+	Second Amended and Restated Limited Liability Company Agreement of BREA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA V L.L.C. (incorporated herein by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.29+	Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.29.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.26.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.30	Second Amended and Restated Limited Liability Company Agreement of Blackstone Communications Management Associates I L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Communications Management Associates I L.L.C. (incorporated herein by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.31+	Amended and Restated Limited Liability Company Agreement of BCLA L.L.C., dated as of April 15, 2008, by and among Blackstone Holdings III L.P. and certain members of BCLA L.L.C. (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.32+	Third Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates Europe III L.P., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.33+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Real Estate Special Situations Associates L.L.C., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.34+	BMA VI L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2008 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.35+	Fourth Amended and Restated Limited Liability Company Agreement of GSO Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.36+	Amended and Restated Limited Liability Company Agreement of GSO Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.37+	Third Amended and Restated Limited Liability Company Agreement of GSO Origination Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.38+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.39+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.40+	Second Amended and Restated Limited Liability Company Agreement of GSO Liquidity Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.41+	Amended and Restated Limited Liability Company Agreement of GSO Liquidity Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.42+	Blackstone / GSO Capital Solutions Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of May 22, 2009 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.43+	Blackstone / GSO Capital Solutions Overseas Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of July 10, 2009 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.44+	Blackstone Real Estate Special Situations Associates II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.45+	Blackstone Real Estate Special Situations Management Associates Europe L.P. Amended and Restated Agreement of Limited Partnership, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.46+	BRECA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of May 1, 2009 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Quarterly Report on 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.47	Amended and Restated Master Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Management Partners IV, L.L.C., dated as of February 27, 2012 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.48	GSO Targeted Opportunity Associates LLC Amended and Restated Limited Liability Company Agreement Dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.49	GSO Targeted Opportunity Overseas Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.50	BCVA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 8, 2010 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.51	Amended and Restated Agreement of Exempted Limited Partnership of MB Asia REA L.P., dated November 23, 2010 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33551) filed with the SEC on February 25, 2011).
10.52	Amended and Restated Limited Liability Company Agreement of GSO SJ Partners Associates LLC, dated December 7, 2010, by and among GSO Holdings I L.L.C. and certain members of GSO SJ Partners Associates LLC thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.53+*	Amended and Restated Exempted Limited Partnership Agreement of GSO Capital Opportunities Associates II LP, dated as of December 31, 2015.
10.54	Blackstone EMA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.55	GSO NMERB Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 25, 2011 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.56	Blackstone Real Estate Associates VII L.P. Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.56.1	Blackstone Real Estate Associates VII L.P. Second Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.53.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.57	GSO Energy Partners-A Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of February 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.58	BTOA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of February 15, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.59+	Form of Deferred Holdings Unit Agreement for Senior Managing Directors (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.60+	Amended and Restated Limited Liability Company Agreement of Blackstone Commercial Real Estate Debt Associates L.L.C., dated as of November 12, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.61+	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.62+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.63+	GSO Foreland Resources Co-Invest Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 10, 2012 (incorporated herein by reference to Exhibit 10.60 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.64+	GSO Palmetto Opportunistic Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2012 (incorporated herein by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.65+	Agreement, dated as of July 6, 2010, between Blackstone Holdings I L.P. and John G. Finley (incorporated herein by reference to Exhibit 10.62 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.66+	Second Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Asia L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.63 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.67+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Europe IV L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.64 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.68+	Aircraft Dry Lease Agreement between XB Partners LLC and Blackstone Administrative Services Partnership L.P. dated as of February 27, 2015 (incorporated herein by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.69+	Form of GSO Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.66 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).
10.70+	Form of GSO Senior Managing Director Non-Compensation and Non-Solicitation Agreement by and among Blackstone Holding among Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.67 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33551) filed with the SEC on February 27, 2015).



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<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.71+	Form of Performance Earn Out Letter Agreement by and among Blackstone Holdings I L.P., GSO Holdings I L.L.C. and each of the GSO individuals party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.72+	Performance Earn Out Side Letter by and between Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. and Bennett J. Goodman dated February 24, 2015 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.73+	Form of Deferred Holdings Unit Agreement between The Blackstone Group L.P. and each GSO participant party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.74	Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Administrative Services Partnership L.P., dated as of January 15, 2015 (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-33551) filed with the SEC on May 8, 2015).
10.75+	Form of Special Equity Award — Deferred Holdings Unit Agreement under The Blackstone Group L.P. 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (File No. 001-33551) filed with the SEC on August 6, 2015).
10.76+*	Amended and Restated Agreement of Limited Partnership of BREP Edens Associates L.P., dated as of December 18, 2013.
10.77+*	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone AG Associates L.P., dated as of February 16, 2016 and deemed effective as of May 30, 2014.
10.78+*	Amended and Restated Agreement of Limited Partnership of BREP OMP Associates L.P., dated as of June 27, 2014.
10.79+*	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone OBS Associates L.P., dated as of February 16, 2016 and deemed effective July 25, 2014.
10.80+*	Amended and Restated Limited Liability Company Agreement of Blackstone EMA II L.L.C., dated as of October 21, 2014.
10.81+*	Second Amended and Restated Agreement of Limited Partnership of Blackstone Liberty Place Associates L.P., dated as of February 9, 2015.
10.82+*	Second Amended and Restated Agreement of Exempted Limited Partnership of BPP Core Asia Associates L.P., dated February 16, 2016 and deemed effective March 18, 2015.
10.83+*	Second Amended and Restated Agreement of Exempted Limited Partnership of BPP Core Asia Associates-NQ L.P., dated as of February 16, 2016 and deemed effective March 18, 2015.
10.84+*	Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Associates VIII L.P., dated as of March 27, 2015.
10.85+*	Amended and Restated Limited Liability Company Agreement of BMA VII L.L.C., dated as of May 13, 2015.
10.86+*	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone Property Associates International L.P., dated as of February 16, 2016 and deemed effective as of July 15, 2015.
10.87+*	Amended and Restated Agreement of Exempt Limited Partnership of Blackstone Property Associates International-NQ L.P., dated as of February 16, 2016 and deemed effective July 28, 2015.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1*	Section 13(r) Disclosure.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

+ Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 26, 2016

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

/s/ Michael S. Chae

Name: Michael S. Chae  
Title: Chief Financial Officer  
(Principal Financial Officer and Authorized Signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 26th day of February, 2016.

<u>Signature</u>	<u>Title</u>
<u>/s/ Stephen A. Schwarzman</u> Stephen A. Schwarzman	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
<u>/s/ Bennett J. Goodman</u> Bennett J. Goodman	Director
<u>/s/ Jonathan D. Gray</u> Jonathan D. Gray	Director
<u>/s/ J. Tomilson Hill</u> J. Tomilson Hill	Director
<u>/s/ Hamilton E. James</u> Hamilton E. James	Director
<u>/s/ Peter T. Grauer</u> Peter T. Grauer	Director
<u>/s/ Richard Jenrette</u> Richard Jenrette	Director
<u>/s/ Rochelle B. Lazarus</u> Rochelle B. Lazarus	Director
<u>/s/ Jay O. Light</u> Jay O. Light	Director
<u>/s/ Brian Mulroney</u> Brian Mulroney	Director

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<u>Signature</u>	<u>Title</u>
<hr/> /s/ William G. Parrett William G. Parrett	Director
<hr/> /s/ Michael S. Chae Michael S. Chae	Chief Financial Officer (Principal Financial Officer)
<hr/> /s/ Kathleen Skero Kathleen Skero	Principal Accounting Officer (Principal Accounting Officer)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551

**Blackstone**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 

(do not check if a smaller reporting company)

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2014 was approximately \$19.3 billion, which includes non-voting common units with a value of approximately \$2.3 billion.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 24, 2015 was 533,288,534. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 24, 2015 was 69,083,468.

DOCUMENTS INCORPORATED BY REFERENCE  
None

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### Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “indicator,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (“SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

### Website and Social Media Disclosure

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the “Contact Us/Email Alerts” section of our website at [ir.blackstone.com](http://ir.blackstone.com) and the “Alerts & Subscriptions” page under “News & Views” at [www.blackstone.com](http://www.blackstone.com). The contents of our website, any alerts and social media channels are not, however, a part of this report.

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In this report, references to “Blackstone,” the “Partnership,” “we,” “us” or “our” refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

“Blackstone Funds,” “our funds” and “our investment funds” refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) and collateralized debt obligation (“CDO”) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. “Our carry funds” refer to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone’s Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (“BCP”) funds, certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (“Tactical Opportunities”), and Strategic Partners Fund Solutions (“Strategic Partners”), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (“BREDS”) funds. We refer to our core+ real estate funds which invest with a more modest risk profile and lower leverage as Blackstone Property Partners (“BPP”) funds. We refer to our listed real estate investment trusts as “REITs”. “Our hedge funds” refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-focused funds which are managed by Blackstone.

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“Assets under management” refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days’ notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days’ notice.

“Fee-earning assets under management” refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.



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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

**PART I.**

**ITEM 1. BUSINESS**

***Overview***

Blackstone is a leading global alternative asset manager and provider of financial advisory services, with Total Assets Under Management of \$290.4 billion as of December 31, 2014. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds and multi-asset class exposures falling outside of other funds' mandates. We also provide a wide range of financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services.

All of Blackstone's businesses use a solutions oriented approach to drive better performance. Since we were founded in 1985, we have cultivated strong relationships with clients in our financial advisory business, where we endeavor to provide objective and insightful solutions and advice that our clients can trust. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are corporate and public pension funds. As a result, to the extent our funds perform well, it supports a better retirement for hundreds of thousands of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have transformative impacts on local economies.

As of December 31, 2014, we had 137 senior managing directors and employed approximately 910 other investment and advisory professionals at our headquarters in New York and in 23 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

***2014 Highlights***

***Accelerating Realization Activity***

- Sustained constructive market backdrop has allowed for increasing exit activity for more seasoned investments, with total realizations rising to \$45 billion, up from \$30 billion in 2013.
- Active participation in equity and debt capital markets, including over 25 public equity transactions raising over \$19 billion in proceeds, and several portfolio company refinancings. Equity capital markets activity included the successful initial public offerings of LaQuinta, Michaels Stores, and Catalent.

***Record Global Investment Pace***

- Our funds, including co-investments, invested a record \$26.4 billion of capital.
- Global scale and diversity across asset classes allow Blackstone to identify relative value and move capital to the most attractive opportunities. Nearly half of capital deployed during the year was outside of North America.

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### ***Strong Growth in Assets Under Management Despite Record Realization Pace***

- Each of our investing businesses saw positive growth in Assets Under Management in 2014, despite significant levels of realizations, due to continued strong inflows through product and channel diversification, as well as market appreciation.
- Gross organic capital inflows across our businesses reached \$57 billion for 2014, which we believe is a record year for any alternative asset management firm. This was achieved without either our flagship global private equity or real estate funds — historically our largest funds — being in the market for fund-raising.
- Our second energy fund raised \$4.5 billion in the fourth quarter of 2014, hitting its cap, and equating to roughly double the size of the prior fund.
- In Real Estate, our first Asian real estate fund closed at its cap of \$5.0 billion, while our fourth European fund raised nearly €7 billion in total commitments. Our new core+ strategy raised nearly \$4 billion in its first year, including our first commingled U.S.-focused open ended core+ fund.
- Hedge Fund Solutions had external gross inflows of \$12.0 billion, including inflows from Blackstone Alternative Asset Management’s (“BAAM”) permanent capital vehicle acquiring general partner interests in hedge funds and additional inflows into BAAM’s registered product platform, which is now \$3.2 billion in size. We continued to build out Senfina, BAAM’s multi-strategy trading platform, in order to provide additional capacity and diversification for our clients.
- Tactical Opportunities commenced fundraising for its second comingled fund, raising \$829.5 million in the fourth quarter, with the majority of this fund raise expected in 2015.
- Final close of our latest Strategic Partners secondary fund of funds, which reached \$4.4 billion, or approximately twice the size of the prior fund.
- Credit continued to diversify the platform and launch new products, driving \$21 billion in gross inflows during the year.

### ***New Strategic Direction for our Advisory Business***

- In October, we announced plans to spin off our advisory businesses into an independent, publicly traded firm during 2015, which will be led by Paul Taubman. We believe there is a significant market opportunity for a high quality, independent and diversified advisory practice.

### ***Industry-Leading Credit Rating and Strong Balance Sheet***

- Strong balance sheet with no net debt, \$3.4 billion in total cash, corporate treasury and liquid investments, and \$1.1 billion undrawn revolver.
- S&P and Fitch have both affirmed Blackstone’s A+ / A+ credit ratings, making Blackstone the highest rated alternative asset manager and one of the highest rated global financial services firms.

### ***Positively Impacting Communities***

- In support of the White House’s “Joining Forces” initiative, Blackstone launched its Veterans Hiring Initiative, committing to hire 50,000 veterans across our portfolio of companies over a five-year period. In August 2014, Blackstone announced its partnership with its portfolio company Hilton Worldwide, the U.S. Department of Veterans Affairs and Kendall College in Chicago to provide a first-of-its-kind hospitality education program designed to help veterans and their spouses receive the experience and knowledge that can lead to a meaningful career in hospitality management. 20,000 veterans have been hired since the Veterans Hiring Initiative was announced in April 2013.

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- The Blackstone Charitable Foundation continued its efforts aimed at accelerating entrepreneurship, job growth and economic activity as part of its Entrepreneurship Initiative.

### Business Segments

Our five business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions, (d) Credit, and (e) Financial Advisory.

Information about our business segments should be read together with “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements and related notes included elsewhere in this Form 10-K.

#### *Private Equity*

Our Private Equity segment, established in 1987, is a global business with approximately 220 investment professionals managing \$73.1 billion of Total Assets Under Management as of December 31, 2014. We are focused on identifying, managing and creating lasting value for our investors. Our Private Equity segment includes our (a) corporate private equity funds, (b) our Tactical Opportunities business, which pursues a global multi-asset class approach to investing in illiquid assets focused on timely opportunities that fall outside our other alternative fund strategies, (c) Strategic Partners, our secondary private fund of funds business, as well as (d) Blackstone Total Alternatives Solution (“BTAS”), a new investment program for eligible high net worth investors offering exposure to Blackstone’s key illiquid investment strategies through a single commitment. We have raised six general private equity funds as well as three specialized funds focusing on energy and communications-related investments, and we have recently commenced our second Tactical Opportunities fund raise and the fund raise for our seventh general private equity fund. We are currently investing from our sixth general private equity fund, Blackstone Capital Partners VI (“BCP VI”) and our energy fund, Blackstone Energy Partners (“BEP”), which have fund sizes of \$15.2 billion and \$2.4 billion, respectively. In addition, we are investing capital for Tactical Opportunities which, as of December 31, 2014, had raised \$7.0 billion of capital across the platform. As of December 31, 2014, we had raised commitments of \$694 million in BTAS.

From an operation focused in our early years on consummating leveraged buyout acquisitions of U.S. based companies, we have grown into a business pursuing transactions throughout the world and executing not only typical leveraged buyout acquisitions of seasoned companies but also transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions. Our Private Equity segment’s multi-dimensional investment approach is guided by several core investment principles: corporate partnerships, sector expertise, a contrarian bias (for example, investing in out-of-favor / under-appreciated industries), global scope, distressed securities investing, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. Our existing corporate private equity funds invest primarily in control-oriented, privately negotiated investments and generally utilize leverage in consummating the investments they make. For more information concerning the revenues and fees we derive from our Private Equity segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

#### *Real Estate*

We have become a world leader in real estate investing since launching, having built the largest private real estate investment business in the world since our start in 1991 and, with our approximately 210 investment professionals, manage \$80.9 billion of Total Assets Under Management as of December 31, 2014. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, a publicly traded real estate investment trust (“BXMT”) and core+ real estate investments, including the 2014 launch of our first commingled U.S.-focused open ended core+ fund. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, office

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buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. Our core+ funds target stabilized office, multifamily, industrial, and retail assets globally. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds, our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (“BREDS”) funds and our core+ investment funds as our Blackstone Property Partners (“BPP”) funds. Our Real Estate segment’s investing approach is guided by several core investment principles, many of which are similar to our Private Equity segment, including global scope, a significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. For more information concerning the revenues and fees we derive from our Real Estate segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

### *Hedge Fund Solutions*

Our Hedge Fund Solutions group, which is comprised primarily of Blackstone Alternative Asset Management (“BAAM”), was organized in 1990 and manages a broad range of commingled funds of hedge funds and customized vehicles. BAAM’s businesses also include hedge fund seed, long-only, special situations and advisory platforms. BAAM also has launched a public funds platform. Working with our clients over the past 24 years, BAAM has developed into a leading manager of institutional funds of hedge funds with approximately 150 investment professionals managing \$63.6 billion of Total Assets Under Management as of December 31, 2014. BAAM’s overall investment philosophy is to protect and grow investors’ assets through both commingled and custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see “— Incentive Arrangements / Fee Structure” in this Item 1.

### *Credit*

Our credit business, comprised principally of GSO Capital Partners LP (“GSO”), with \$72.9 billion of Total Assets Under Management as of December 31, 2014 and approximately 140 investment professionals, is a leading participant in the leveraged finance markets. The funds we manage or sub-advise include senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. GSO also manages separately managed accounts and registered investment companies including business development companies. These vehicles have investment portfolios comprised of loans and securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with the investments that the credit-focused funds, separately managed accounts or registered investment companies make. GSO manages 45 separate CLOs as of December 31, 2014, focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

### *Financial Advisory*

Our Financial Advisory segment comprises our financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds. Our financial advisory businesses are global businesses with approximately 260 professionals around the world.

*Financial and Strategic Advisory Services (“Blackstone Advisory Partners”)*. Blackstone Advisory Partners has been an independent provider of creative solutions to institutional clients around the globe on complex strategic initiatives for over 25 years. We focus on a wide range of transaction execution capabilities, such as with respect to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory, private placements and distressed sales. Recent clients include Advance Auto Parts, Aviva plc, Dubai World, Essar Steel, Georgia-Pacific, Market Basket, New World Resources, Noble Group, NYSE Euronext, Oerlikon, Punch Taverns, RockTenn, Sapient, and W.R. Grace. The success of Blackstone Advisory Partners has

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resulted from a highly experienced team focused on our core principles, including protecting client confidentiality, prioritizing our client's interests, avoidance of conflicts and senior-level attention. The 19 senior managing directors in Blackstone Advisory Partners have an average of over 20 years of experience each in providing corporate finance and mergers and acquisitions advice. Through Blackstone Advisory Partners, we also provide capital markets services, primarily underwriting securities offerings. Transactions in which we have participated as an underwriter or arranger in 2014 include the initial public offerings of Catalent, La Quinta and Vivint Solar, as well as the debt offerings for Gates, Ipreo, and Cheniere.

*Restructuring and Reorganization Advisory Services ("Restructuring and Reorganization")*. Our Restructuring and Reorganization group is one of the leading advisers in both out-of-court restructurings and in-court bankruptcies. Our Restructuring and Reorganization team advises companies, creditors, corporate parents, hedge funds, financial sponsors and acquirers of troubled companies. This group is particularly active in large, complex and high-profile deals. Recent clients include Airwave, Essar Steel Algoma, Genco, IVG creditors, MBIA regarding Detroit, New World Resources, OGX, Punch Taverns, Specialty Products Holding Corp., Tragus, Travelport and W.R. Grace. Senior-level attention, out-of-court focus, global emphasis and the ability to facilitate prompt, creative resolutions are critical ingredients in our restructuring and reorganization advisory approach. We have one of the most seasoned and experienced restructuring teams in the financial services industry, working on a significant share of the major restructuring assignments in this area. Our eight senior managing directors have an average of 17 years of experience each in restructuring assignments and employ the skills we feel are crucial to successful restructuring outcomes.

*Fund Placement Services/Park Hill Group*. Park Hill Group provides fund placement services for private equity funds, real estate funds, venture capital funds and hedge funds. Park Hill Group primarily provides placement services to unrelated third party sponsored funds. It also assists in raising capital for our own investment funds and provides insights into new alternative asset products and trends. Park Hill Group and our investment funds mutually benefit from the other's relationships with both limited partners and other fund sponsors.

*Proposed Spin-Off Transaction*. On October 10, 2014, we announced plans to spin off our financial and strategic advisory services, restructuring and reorganization advisory services, and our Park Hill fund placement businesses and combine these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman. Our capital markets business will not be part of the transaction, and will be retained by us. The parties expect the transaction to close in 2015. The new entity will be an independent, publicly traded company, which will be led by Mr. Taubman as Chairman and Chief Executive Officer. The transaction is intended to be tax-free to us and our unitholders.

## Financial and Other Information by Segment

Financial and other information by segment for the years ended December 31, 2014, 2013 and 2012 is set forth in Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

## Pátria Investments

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, "Pátria"). Pátria is a leading Brazilian alternative asset manager and advisory firm that was founded in 1988. As of December 31, 2014, Pátria's alternative asset management businesses managed \$9.6 billion in assets and include the management of private equity funds (\$4.3 billion), real estate funds (\$1.3 billion), infrastructure funds (\$3.8 billion) and hedge funds (\$240 million). Pátria has approximately 200 employees and is led by a group of four managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria's board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

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Pátria is currently investing its fourth private equity fund, which has \$1.3 billion of commitments. During 2014, Pátria also raised its fifth private equity fund, which has approximately \$1.8 billion of commitments and has not yet started investing. Pátria's private equity business primarily targets high-growth industries in Brazil and has successfully built leading companies through its operational focus and platform building approach. Pátria is currently investing its third real estate fund. Its real estate funds have focused primarily on Brazilian real estate development, particularly build-to-suit, sale leaseback and buy-lease transactions. Pátria is also currently pursuing more opportunistic real estate investments within Brazil. Pátria's infrastructure business is in its third vintage. Its first fund concentrated on renewable energy generation, including early stage projects in Brazil. The second and third infrastructure funds are a joint venture with Promon Engenharia, a leading engineering consultancy firm within Brazil, with a broad mandate for infrastructure and infrastructure-related investments in Brazil and selected other Latin American countries. The firm's capital management group manages a variety of liquid funds with strategies focused on currency, sovereign debt, credit, interest rates and equities in Brazil. Pátria's investors are diversified and include Brazilian and international institutional and high-net worth investors.

Pátria's advisory business focuses on mergers and acquisitions, joint ventures, and strategic partnerships, corporate finance and restructuring for Brazilian and multinational companies. In March 2012, Pátria acquired a 50% stake in Capitale, one of the leading independent power trading companies in Brazil.

### Investment Process and Risk Management

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest, as well as limitations required by law.

#### Private Equity Funds

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly review committee meeting comprised of senior managing directors of our Private Equity segment. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. After discussing the contemplated transaction with the deal team, the review committee decides whether to give its preliminary approval to the deal team to continue pursuing the investment opportunity and investigate further any particular issues raised by the review committee during the process.

Once a proposed transaction has reached a more advanced stage, it undergoes a detailed interim review by the review committee of our private equity funds. Following assimilation of the review committee's input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James and selected senior managing directors of our Private Equity segment as appropriate based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

Our Tactical Opportunities business has a substantially similar process to the Private Equity process described above, with the exception of the composition of the review and investment committees. The Tactical Opportunities review committee is comprised of the senior managing directors and managing directors of the Tactical Opportunities business, and the investment committee is comprised of Mr. Schwarzman, Mr. James, the business heads of Blackstone's Private Equity, Real Estate and Credit businesses, the senior managing directors of our Tactical Opportunities business and two senior managing directors of our Private Equity segment.

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The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies' operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds' portfolio companies.

Our Strategic Partners secondary private equity investment professionals seek capital appreciation through the purchase of secondary interests in mature, high-quality private equity funds from investors seeking liquidity. After rigorous, highly analytical investment and operational due diligence, the Strategic Partners' investment professionals will present a proposed transaction to the group's Investment Committee. The Strategic Partners Investment Committee is made up of senior members of the Strategic Partners team, including all of the group's Senior Managing Directors. The Investment Committee meets on an ad hoc basis as needed to review transactions. After reviewing the investment team's Investment Committee Memorandum and discussing the contemplated transaction with the deal team, the Investment Committee decides whether to approve or deny the investment. The investment professionals on the Strategic Partners team are responsible for monitoring each investment once it is made. In addition to members of the investment team, and given the large number of underlying investments, the Strategic Partners Finance team will also track investment valuations pursuant to the group's valuation policies and procedures.

### Real Estate Funds

Our Real Estate investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing, monitoring and exiting investments, as well as pursuing operational improvements and value creation. Our real estate operation has an investment committee similar to that described under "— Private Equity Funds." After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly meeting of the investment committee. The real estate investment committee, which includes Mr. Schwarzman, Mr. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP fund investment. The committee also approves significant illiquid investments by the BREDS funds. Additionally, BXMT has an investment risk management committee comprised solely of independent directors, which is responsible for approving certain significant BXMT investments. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies' operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds' portfolio companies and other investments.

### Hedge Fund Solutions

Before deciding to invest in a new hedge fund or with a new hedge fund manager, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site "front office" review of the fund's/manager's performance, investment terms, investment strategy and investment personnel, a "back office" review of the fund's/manager's operations, processes, risk management and internal controls, industry reference checks and a legal review of the investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the relevant Hedge Fund Solutions' Investment Committee. The Investment Committees are comprised of relevant senior managing directors and senior investment personnel. The Hedge Fund Solutions' Executive Committee reviews and approves all investment allocations where there is limited capacity or there are other unusual circumstances. Existing investments are reviewed and monitored on a regular and continuous basis, and J. Tomilson Hill, CEO of Hedge Fund Solutions and Vice Chairman of Blackstone, and other senior members of our Hedge Fund Solutions team meet bi-weekly with Mr. Schwarzman and Mr. James to review the group's business and affairs.



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### Credit

Each of our credit-focused funds has an investment committee similar to that described under “— Private Equity Funds.” The investment committees for the credit-focused funds, which typically include Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover and senior members of the respective investment teams associated with each fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Mr. Goodman, Mr. Smith III and Mr. Ostrover, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for the customized credit long-only clients and other clients whose portfolios are actively traded are made by separate investment committees, each of which is comprised of the group’s respective senior managing directors, managing directors and other investment professionals. With limited exceptions where the portfolio managers wish to capitalize on time sensitive market opportunities, the investment committee approves all assets that are held by the applicable client. The investment team is staffed by professionals within research, portfolio management, trading and capital formation to ensure active management of the portfolios. Investment decisions (including the approval of the asset for the initial purchase) follow a consensus-based approach. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation as well as the risks associated with the overall portfolio composition. Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team constantly monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### Structure and Operation of Our Investment Vehicles

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high-net worth individuals. Such commitments are generally drawn down from investors on an as needed basis to fund investments over a specified term. All of our private equity and private real estate funds are commitment structured funds, except certain real estate debt funds and our U.S. and Canada core+ real estate commingled fund, which are structured like hedge funds where all (or a portion) of the committed capital is funded on or promptly after the investor’s subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our Real Estate business also includes a NYSE listed real estate investment trust, or “REIT”, and a registered closed-end investment company complex, each of which is externally managed by a BREDS-owned adviser. Our credit-focused funds are generally commitment structured funds or hedge funds where the investor’s capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Nine credit-focused vehicles that we manage or sub-advise in whole or in part are registered investment companies (including business development companies). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds as well as our hedge funds are structured as funds where the investor’s capital is fully funded into the fund upon the subscription for interests in the fund. Our private investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or “Advisers Act.” Substantially all of the responsibility for the day-to-day operations of each investment vehicle is typically

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delegated to the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or “1940 Act,” in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are “qualified purchasers” as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the United States Securities and Exchange Commission (“SEC”), Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers. With respect to BXMT, which is externally managed by a BREDS-owned entity pursuant to a management agreement, it conducts its operations in a manner that allows it to maintain its REIT qualification and also avail itself of the statutory exclusion provided by Section 3(c)(5)(c) of the 1940 Act for companies engaged primarily in investment in mortgages and other liens or investments in real estate.

In some cases, one or more of our investment advisers, including GSO, BAAM and BREDS advisers, advises or sub-advises funds registered under the 1940 Act.

In addition to having an investment adviser, each investment fund that is a limited partnership, or “partnership” fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund’s business. Furthermore, all decisions concerning the making, monitoring and disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund’s general partner in its sole discretion. With the exception of certain of our funds of hedge funds, hedge funds, certain credit-focused funds, and other funds or separately managed accounts for the benefit of one or more specified investors, third party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain “key persons” in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund’s investment period will automatically terminate and the vote of a simple majority of investors is required to restart it.

## Incentive Arrangements / Fee Structure

### *Management Fees*

The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund’s capital commitments, invested capital and/or undeployed capital during the investment period and the fund’s invested capital or investment fair value after the investment period, except that the investment advisers to certain of our credit-focused carry funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. The investment adviser of each of our funds that are structured like hedge funds, or of our funds of hedge funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of

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the fund's or account's net asset value. The investment adviser of each of our CLOs and CDOs typically receives annual management fees based upon a percentage of each fund's total assets, subject to certain performance measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). The investment adviser of our separately managed accounts typically receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The investment adviser of each of our credit-focused registered and non-registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. The investment adviser of BXMT receives annual management fees based upon a percentage of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its net income, calculated under accounting principles generally accepted in the United States of America ("GAAP"), excluding certain non-cash and other items), subject to certain adjustments. For additional information regarding the management fees we receive, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition — Management and Advisory Fees".

The management fees we receive from our carry funds are payable on a regular basis (typically quarterly) in the contractually prescribed amounts noted above over the life of the fund and do not depend on the investment performance of the fund. The management fees we receive from our hedge funds have similar characteristics, except that such funds often afford investors increased liquidity through annual, semi-annual or quarterly withdrawal or redemption rights following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years) and the amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor's capital account grows and will proportionately decrease as the net asset value of each investor's capital account decreases. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. The management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice. The management fees we receive from the registered investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice. The management fees we receive from managing BXMT are paid quarterly and increase or decrease based on, among other things, BXMT's net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments).

### *Incentive Fees*

The general partners or similar entities of each of our hedge fund structures receive performance-based allocation fees ("incentive fees") of generally up to 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry-forward (known as a "high water mark") and/or other hurdle provisions. In some cases, the investment adviser of each of our funds of hedge funds, separately managed accounts that invest in hedge funds and certain registered investment companies is entitled to an incentive fee generally ranging from zero to 15% of the applicable investment vehicle's net appreciation, subject to a high water mark and in some cases a preferred return. In addition, for the business development companies we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum, subject to a preferred return. The external manager of BXMT is entitled to an incentive fee, payable quarterly, in an amount, not less than zero, equal to the product of (a) 20% and (b) the excess of (i) BXMT's core earnings for the previous 12-month period over (ii) an amount equal to 7.00% per annum multiplied by BXMT's average outstanding equity (as defined in the management agreement), provided that BXMT's core earnings over the prior three-year period is greater than zero. Incentive Fees are realized at the end of a measurement period, typically annually (but in certain real estate funds the measurement period is as long as three years). Once realized, such fees are not subject to clawback.

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### *Carried Interest*

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a “realized gain” basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused funds, real estate debt funds, multi-asset class investment funds and secondary funds of funds are entitled to a carried interest that ranges from 10% to 15% depending on the specific fund. Net realized income or loss is not netted between or among funds.

For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 6% to 10%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund (or earlier with respect to our real estate, real estate debt and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in a carry fund’s life, (a) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) of the fund’s net profits over the life of the fund, or (in certain cases) (b) the carry fund has not achieved investment returns that exceed the preferred return threshold, then we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which the relevant general partner we are ultimately entitled on an after tax basis. This obligation is known as a “clawback” obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and carried interest of other funds is not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share of the clawback obligation then due, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50%) although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2014, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see “— Item 1A. Risk Factors — We may not have sufficient cash to pay back ‘clawback’ obligations if and when they are triggered under the governing agreements with our investors.”

### *Advisory Fees*

Many of our investment advisers, especially private equity and real estate advisers, receive customary fees (for example, acquisition fees or origination fees) upon consummation of many of the funds’ transactions, receive monitoring fees from many of the funds’ portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees that they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such transaction fees and certain other fees that they receive.

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### Capital Invested In and Alongside Our Investment Funds

To further align our interests with those of investors in our investment funds, we have invested the firm's capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity Needs" for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional "co-investments" with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as "side-by-side investments," with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

### Competition

The asset management and financial advisory industries are intensely competitive, and we expect them to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

*Asset Management*. We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. With respect to outside investors, many have increased the amount of commitments they are making to alternative investment funds. However, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for

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investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Competitors may also be subject to different regulatory regimes or rules that may provide them more flexibility or better access to pursue transactions or raise capital for their investment funds. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment.

*Financial Advisory*. Our competitors are other advisory, investment banking and financial firms. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. Our competitors also have the ability to support investment banking, including financial and strategic advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions and other strategic advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see “— Item 1A. Risk Factors — Risks Related to Our Asset Management Business — The asset management business is intensely competitive” and “— Risks Related to Our Financial Advisory Business — We face strong competition from other financial advisory firms”.

## Employees

As of December 31, 2014, we employed approximately 2,190 people, including our 137 senior managing directors and approximately 910 other investment and advisory professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

## Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients, and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial and strategic advisory business, is registered as a broker-dealer with the SEC, is a member of the Financial Industry Regulatory

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Authority, or “FINRA,” and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. Park Hill Group LLC is registered as a broker-dealer with the SEC, is a member of FINRA and is registered as a broker-dealer in numerous states. Our broker-dealer entities are subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entities. State securities regulators also have regulatory or oversight authority over our broker-dealer entities.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including the implementation of a supervisory control system over the securities business, sales practices, conduct of and compensation in connection with public and private securities offerings, use and safekeeping of customers’ funds and securities, maintenance of adequate net capital, record keeping, the financing of customers’ purchases and the conduct and qualifications of directors, officers and employees. In particular, as registered broker-dealers and members of FINRA, Blackstone Advisory Partners L.P. and Park Hill Group LLC are subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the capital structure of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC’s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

The Blackstone Group International Partners LLP and GSO Capital Partners International LLP (“GSO International”) are both authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. The U.K. Financial Services and Markets Act 2000, or “FSMA,” and rules promulgated thereunder govern all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. Pursuant to the FSMA, certain of our subsidiaries are subject to regulations promulgated and administered by the FCA.

In addition, each of the closed-end mutual funds and investment management companies we manage is registered under the 1940 Act as a closed-end investment company. The closed-end mutual funds and investment management companies and the entities that serve as those vehicles’ investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland and is authorized to act as a manager of Irish non-UCITS Collective Investment Schemes. Blackstone/GSO Debt Funds Management Europe II Limited is authorized by the Central Bank of Ireland as an Alternative Investment Fund Manager. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore: The Blackstone Group Japan K.K., a financial instruments firm, is registered with Kanto Local Finance Bureau (Kin-sho) and regulated by the Japan Financial Services Agency; The Blackstone Group (HK) Limited is regulated by the Hong Kong Securities and Futures Commission; The Blackstone Group (Australia) Pty Limited ACN 149 142 058 holds an Australian financial services license authorizing it to provide financial services in Australia (AFSL 408376), and is regulated by the Australian Securities and Investments Commission; and The Blackstone Singapore Pte. Ltd is regulated by the Monetary Authority of Singapore (Company Registration Number: 201020503E).

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms.

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As described above, certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”). Our enterprise risk management function further analyzes our business, investment, and other key risks, reinforcing their importance in our environment. Our Chief Legal Officer and Chief Compliance Officer, together with the Chief Compliance Officers of each of our businesses, supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest, the allocation of investment opportunities and expense allocation.

Our compliance group also monitors the information barriers that we maintain between the public and private side of Blackstone’s businesses. We believe that our various businesses’ access to the intellectual knowledge and contacts and relationships that reside throughout our firm benefits all of our businesses. To maximize that access without compromising our compliance with our legal and contractual obligations, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

The firm has an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley compliance, and enterprise risk management functions. Internal Audit aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well-managed and that controls are appropriate and effective.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see “Regulatory changes in the United States could adversely affect our business” and “Recent regulatory changes in jurisdictions outside the United States could adversely affect our business” in “— Item 1A. Risk Factors — Risks Related to Our Business.”

## Available Information

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.



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Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

### ITEM 1A. RISK FACTORS

#### Risks Related to Our Business

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition.*

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financial institutions, which had a significant material adverse effect on our investment businesses, particularly our private equity and real estate businesses. During that period, many economies around the world, including the U.S. economy, experienced significant declines in employment, household wealth, and lending. The lack of credit in 2008 and 2009 materially hindered the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impacted our operating results in those periods. While the adverse effects of that period have abated to a significant degree, global financial markets have experienced volatility at various times since that time. As publicly traded equity securities represent a higher proportion of the assets of many of our carry funds than has typically been the case, stock market volatility may have a greater impact on our reported results than in the past. Although base rates are inside of historical averages and all-in financing costs are below those prevailing prior to the recession, there is concern that the favorability of market conditions may be dependent on continued monetary policy accommodation from central banks, especially the U.S. Federal Reserve. In addition, many emerging economies continue to experience weakness, tighter credit conditions and a decreased availability of foreign capital. Continued weakness could result in lower returns than we anticipated at the time certain of our investments were made.

Although interest rates have been at historically low levels for the last few years the Federal Reserve has indicated an intention to begin raising rates in the coming months. A period of sharply rising interest rates could have an adverse impact on our business.

Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets and by the possibility that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds' portfolio companies may experience adverse operating performance, decreased revenues, credit rating downgrades, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our

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ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds' performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently to our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. We are unable to predict whether and to what extent economic and market conditions will improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

In addition, our financial advisory business can be materially affected by conditions in the global economy and various financial markets. For example, revenues generated by our financial advisory business are directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our financial advisory services and increasing price competition among financial services companies seeking such engagements.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or re-financing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

A significant contraction in the market for debt financing, such as the contraction that occurred in 2008 and 2009 or other adverse change, including any regulatory changes that would limit banks' ability to provide debt financing, to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements, and/or more restrictive covenants, particularly in the area of acquisition financings for private equity and real estate transactions, would have a material adverse impact on our business. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets and/or regulatory changes render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the markets and/or regulatory changes make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

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***A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.***

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction and monitoring fees we share with our investors. To the extent we accommodate such requests, and in certain cases we have and we expect to continue to do so, it would result in a decrease in the amount of fee revenue we earn.

***Our revenue, earnings, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds and fees received by our advisory business can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of our common units and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

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The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their “harvesting” period, our carry funds would make larger distributions than in the fundraising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

With respect to most of our funds of hedge funds as well as our credit-focused, and real estate debt and core+ funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have “high water marks” whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

We also earn a portion of our revenue from financial advisory engagements, and in many cases we are not paid until the successful consummation of the underlying transaction, restructuring or closing of the fund. As a result, our financial advisory revenue is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. If a transaction, restructuring or funding is not consummated, we often do not receive any financial advisory fees other than the reimbursement of certain out-of-pocket expenses, despite the fact that we may have devoted considerable resources to these transactions.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our initial public offering (“IPO”), our \$600 million debt offering in August 2009, our \$400 million debt offering in September 2010, our \$650 million debt offering in August 2012 and our \$500 million debt offering in April 2014, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.1 billion revolving credit facility with a final maturity date of May 29, 2019. Our long-term debt totaled \$2.1 billion in borrowings from the 2009, 2010, 2012 and 2014 bond issuances and we had no borrowings outstanding against our \$1.1 billion revolving credit facility as of December 31, 2014. At the end of 2014, we had \$1.4 billion in cash, \$1.8 billion invested in our Treasury Cash Management Strategies, \$175.8 million invested in liquid Blackstone funds, \$2.3 billion invested in illiquid Blackstone funds and \$132.0 million invested in other investments.

If the global economy and conditions in the financing markets worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely

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affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

***We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds' carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence — Blackstone Holdings Partnership Agreements") and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings Partnership Units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings Partnership Units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings Partnership Units held by senior managing directors is not dependent upon their continued employment with us as those equity interests

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continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See “— Risks Related to United States Taxation — Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to grow our investment businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) the diversion of management’s attention from our core businesses, (d) assumption of liabilities in any acquired business, (e) the disruption of our ongoing businesses, (f) the increasing demands on or issues related to the combining or integrating operational and management systems and controls, (g) compliance with additional regulatory requirements, and (h) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For

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example, our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. These activities will impose additional compliance burdens on us and could also subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The proposed spin-off of our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses is contingent upon the satisfaction of a number of conditions, may not achieve the intended results, may impact the trading price of our common units, could result in substantial tax liability, and may present difficulties that could have an adverse effect on us.***

On October 10, 2014, we announced our plan to spin off our financial and strategic advisory services, restructuring and reorganization advisory services, and Park Hill fund placement businesses and combine these business with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman, to form an independent publicly traded company. The proposed spin-off is subject to various conditions, is complex in nature and may be affected by unanticipated developments or changes in market conditions. Completion of the spin-off will be contingent upon the receipt of an opinion of tax counsel that certain internal reorganization transactions in connection with the spin-off should qualify as tax-free under Section 355 and/or Section 368 of the Internal Revenue Code, receipt of regulatory approvals, the effectiveness of appropriate filings with the SEC, certain conditions related to the acquisition of PJT Partners and other customary conditions. For these and other reasons, the spin-off transaction may not be completed as expected in 2015, if at all. Even if the spin-off were completed, it may not achieve the intended results. Further, following the spin-off the trading price of our common units may decline and may experience greater volatility, and the aggregate value of your Blackstone common units and your interests in the newly formed company may not equal or exceed the value of your Blackstone common units had the spin-off not occurred. In addition, we may be responsible for U.S. federal income tax liabilities that relate to the spin-off if certain internal reorganization transactions in connection with the spin-off fail to qualify as tax-free, and our unitholders may also incur U.S. federal income tax liability in such circumstances. Finally, execution of the proposed spin-off will also require significant time and attention from management, which may distract management from the operation of our businesses and the execution of other initiatives that may have been beneficial to us. Any such difficulties could have an adverse effect on our business, results of operations or financial condition.

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*The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.*

Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or “ISPI”, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

The Obama administration proposed policies similar to Congress that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposal would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2014 and prior years.

On February 26, 2014, Representative Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the “2014 Camp Proposal”). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to you would be reduced.



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### ***Additional proposed changes in the U.S. and foreign taxation of businesses could adversely affect us.***

Congress, the Organization for Economic Co-operation and Development (“OECD”) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting (“BEPS”) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. Additionally, the Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several of these proposals for reform, if enacted by the United States or by other countries in which we or our affiliates invest or do business, could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a “worldwide” system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Former Senator Baucus proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Chairman of the House Ways and Means Committee, Paul Ryan, has also identified comprehensive tax reform as a priority for the next congress. Whether these or other proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### ***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (“IFRS”) instead of under GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board (“IASB”) and are more focused on objectives and principles and less reliant on detailed rules than GAAP. Today, there remain significant and material differences in several key areas between GAAP and IFRS which would affect Blackstone. Additionally, GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

### ***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems face ongoing cybersecurity threats and attacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer

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viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where most of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds' operations and could affect our reputation and hence adversely affect our businesses.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business.***

Our business is subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations in the jurisdictions in which we operate around the world. These authorities have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are also empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the SEC has specifically focused on private equity. In that connection, the SEC's list of examination priorities includes, among other things, private equity firms' collection of fees and allocation of expenses, their marketing and valuation practices and allocation of investment opportunities. We regularly are subject to requests for information and informal or formal investigations by the SEC and other regulatory authorities, with which we routinely cooperate and, in the current environment, even historical practices that have been previously examined are being revisited. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new asset management or financial advisory clients.

***We rely on complex exemptions from statutes in conducting our asset management activities.***

We regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or "Securities Act," the Exchange Act, the 1940 Act, the Commodity Exchange Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are

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sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. For example, in 2014, the SEC amended Rule 506 of Regulation D under the Securities Act to impose “bad actor” disqualification provisions which ban an issuer from offering or selling securities pursuant to the safe harbor rule in Rule 506 if the issuer, or any other “covered person”, is the subject of a criminal, regulatory or court order or other “disqualifying event” under the rule which has not been waived. The definition of “covered person” under the rule includes an issuer’s directors, general partners, managing members and executive officers; affiliates who are also issuing securities in the offering; beneficial owners of 20% or more of the issuer’s outstanding equity securities; and promoters and persons compensated for soliciting investors in the offering. Accordingly, our ability to rely on Rule 506 to offer or sell securities would be impaired if we or any “covered person” is the subject of a disqualifying event under the rule and we are unable to obtain a waiver. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

### ***We and our affiliates from time to time are required to report specified dealings or transactions involving Iran or other sanctioned individuals or entities.***

The Iran Threat Reduction and Syrian Human Rights Act of 2012 (“ITRA”) expands the scope of U.S. sanctions against Iran. More specifically, Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2014, August 8, 2014 and November 6, 2014 as well as Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

### ***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the United States. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. For example, senior officials at the SEC have recently emphasized their intention to implement a “broken windows” policy, meaning that the SEC will pursue even the most minor violations on the theory that publicly pursuing smaller matters will reduce the prevalence of larger matters. The Director of the SEC’s Division of Enforcement has described “broken windows” as a zero tolerance policy.

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On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

- The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies determined to be “systemically important” for supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States.
- On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The final rule and interpretive guidance details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC applies a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC considers whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve. On July 8, 2013, September 19, 2013, and December 18, 2014, respectively, the FSOC made designations of four non-bank financial companies for Federal Reserve supervision. As expected, we were not among them.
- On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas.
- In connection with the work of the FSOC, on October 31, 2011, the SEC and the Commodity Futures Trading Commission issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports, on Form PF, focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing and their funds’ investments in financial institutions.
- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective on July 21, 2012, kicking off a two-year conformance period. On December 10, 2013, the Federal Reserve and other federal agencies issued the long-awaited final rules implementing the Volcker Rule. Concurrent with the release of such rules, the Federal Reserve issued an order granting an industry-wide one-year extension for all banking entities. As a result, banking entities must have wound down, sold or otherwise conformed their activities, investments and relationships to the requirements of the Volcker Rule by July 2015, absent an extension

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to the conformance period by the Federal Reserve or an exemption for certain “permitted activities.” On December 18, 2014, the Federal Reserve granted an additional one-year extension, giving banking entities until July 21, 2016, in respect of investments in and relationships with certain funds that were in place prior to December 31, 2013 (“legacy covered funds and relationships”). The Federal Reserve also announced that, with respect to legacy covered funds and relationships, it intends to grant a final one-year extension in 2015, which would give banking entities until July 21, 2017 to comply with the Volcker Rule. In addition, the Dodd-Frank Act includes a special provision to address the difficulty banking entities may experience in conforming investments in a private equity fund that qualifies as an “illiquid fund,” or a fund that as of May 1, 2010 was principally invested in, or was contractually committed to principally invest in, illiquid assets and makes all investments pursuant to, and consistent with, an investment strategy to principally invest in illiquid assets. For such a fund, a banking entity may seek approval for an additional extension of up to five years. We do not currently anticipate that the Volcker Rule will adversely affect our fundraising to any significant extent.

- The Dodd-Frank Act requires private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act, to maintain extensive records and to file reports if deemed necessary for purposes of systemic assessment by certain governmental bodies. As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC.
- The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser’s employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding “pay to play” practices by investment advisers.

In September 2010, California enacted legislation requiring placement agents who solicit funds from the California state retirement systems, such as the California Public Employees’ Retirement System and the California State Teachers’ Retirement System to register as lobbyists. In addition to increased reporting requirements, the legislation prohibits placement agents from receiving contingent compensation for soliciting investments from California state retirement systems. New York City has enacted similar measures that require asset management firms and their employees that solicit investments from New York City’s five public pension systems to register as lobbyists. Like the California legislation, the New York City measures impose significant compliance obligations on registered lobbyists and their employers, including annual registration fees, periodic disclosure reports and internal recordkeeping, and also prohibit the acceptance of contingent fees. Moreover, other states or municipalities may consider similar legislation as that enacted in California or adopt regulations or procedures with similar effect. These types of measures could materially and adversely impact our fund placement business.

In June 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States,

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announced the final framework for a comprehensive set of capital and liquidity standards, commonly referred to as “Basel III,” for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by member states. In July 2013, the U.S. federal banking regulators announced the adoption of final regulations to implement Basel III for U.S. banking organizations, subject to various transition periods. Compliance with the Basel III standards may result in significant costs to banking organizations, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See “— Changes in the debt financing markets may negatively impact the ability of our private equity funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower yielding investments and potentially decrease our net income.” In the United States, regulations have been proposed by the federal banking agencies, but they remain pending.

In March 2013, the Federal Reserve and other U.S. federal banking agencies issued updated leveraged lending guidance covering transactions characterized by a degree of financial leverage. To the extent that such guidance limits the amount or cost of financing we are able to obtain for our transactions, the returns on our investments may suffer.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

### ***Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act (“FATCA”), all entities in a broadly defined class of foreign financial institutions (“FFIs”) are required to comply with a complicated and expansive reporting regime or be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

### ***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Union Alternative Investment Fund Managers Directive (the “Directive”), as transposed into national law within the states of the European Economic Area, established a new EEA regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. The Directive generally applies to managers with a registered office in the EEA managing one or more alternative investments funds but, to

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a lesser extent, also impacts non EEA-based managers, such as our affiliates, that market securities of alternative investment funds in the EEA. We have had to comply with certain requirements of the Directive in order to market our investment funds to professional investors in the EEA, including compliance with disclosure and transparency guidelines and asset-stripping restrictions (which prohibit certain distributions to shareholders for 24 months following closing of an acquisition). In addition to implementing the Directive, certain EEA states have changed their national private placement rules, which in some cases restrict our ability to market our investment funds in those states and/or impose additional disclosure, reporting and operational requirements. It is possible that, from no earlier than January 2019, we will be required to comply with the Directive in full in order to market our investment funds to professional investors in the EEA, and we may elect to comply at an earlier point in time in order to facilitate such marketing. In either case this would subject us to a number of additional requirements, including rules relating to the remuneration of certain personnel (principally adopting the provisions of the Capital Requirements Directive), certain capital requirements for alternative investment fund managers, leverage oversight for each investment fund, liquidity management, and retention of depositaries for each investment fund. Compliance with the requirements of the Directive will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

Changes in tax laws by foreign jurisdictions could result from BEPS projects being undertaken by the OECD. The OECD, which represents a coalition of member countries, is contemplating changes to numerous international tax principles, including interest deductibility, transfer pricing, and eligibility for the benefits of double tax treaties. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone's non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Growth Capital Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

### ***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued \$600 million of ten-year senior notes at a rate of 6.625% per annum, in September 2010, we issued \$400 million of ten-year senior notes at a rate of 5.875% per annum, in August 2012, we issued \$400 million of ten-year senior notes at a rate of 4.75% per annum and \$250 million of thirty-year senior notes at a rate of 6.25% per annum and in April 2014, we issued \$500 million of thirty-year senior notes at a rate of 5% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under “— Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments”. In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We

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have a credit facility which provides for revolving credit borrowings that has a final maturity date of May 29, 2019. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or by issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds' use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against the financial services industry in general have been increasing. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the risk of third party litigation arising from investor dissatisfaction with the performance of those investment funds, alleged conflicts of interest, the activities of our portfolio companies and a variety of other litigation claims. From time to time we, our funds and our portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see “— Legal Proceedings” below for a discussion of certain proceedings to which we are currently a party.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Our financial advisory activities may also subject us to the risk of liabilities to our clients and third parties, including our clients' stockholders, under securities or other laws in connection with corporate transactions on which we render advice.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and advisory clients and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest or our financial advisory clients. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our



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reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (“FCPA”). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA, the UK anti-bribery laws or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we will also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, failures by personnel at our portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation. We may face increased risk of such misconduct to the extent our investment in non-U.S. markets, particularly emerging markets, increases. Such misconduct might undermine our due diligence efforts with respect to such companies and could negatively affect the valuation of a fund’s investments.

### **Risks Related to Our Asset Management Business**

*Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.*

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund’s life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds’ performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds’ continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue. A significant number of fund sponsors have recently decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance.

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*Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.*

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been exacerbated by the recent economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although economic conditions have improved and many investors have increased the amount of commitments they are making to alternative investment funds, there is no assurance that this will continue.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as profitable for us as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients. As some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. Our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our

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existing funds, we may experience pressure to do so in our funds. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ("cap rates") analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

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***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- we may create new funds in the future that reflect a different asset mix and different investment strategies, as well as a varied geographic and industry exposure as compared to our present funds, and any such new funds could have different returns from our existing or previous funds,
- market conditions in recent years have been favorable as the global markets rebounded from the financial crisis, which helped to generate positive performance, particularly in our private equity and real estate businesses, although there can be no assurance that such conditions will continue,
- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,
- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,
- in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in alternative investment funds and high liquidity in debt markets,
- our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves, our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and the circumstances under which our current or future funds may make future investments may differ significantly from those conditions prevailing in the past,
- newly established funds may generate lower returns during the period in which they initially deploy their capital, and
- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

The future internal rate of return for any current or future fund may vary considerably from the historical internal rate of return generated by any particular fund, or for our funds as a whole. In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a

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portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory pre-payments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs and CDOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have

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embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost — and the timing and magnitude of such losses may be accelerated or exacerbated — in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund’s net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund’s net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

### *The asset management business is intensely competitive.*

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds), and we expect that competition will continue to increase. A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,
- some of our funds may not perform as well as competitors’ funds or other available investment products,
- several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,
- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,
- some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,
- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,

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- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to

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complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Moreover, because the investment strategy of many of our funds, particularly our private equity funds, often entails our having representation on our funds' public portfolio company boards, our funds may be restricted in their ability to effect such sales during certain time periods. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer — potentially for a considerable period of time — sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as “consortium transactions” due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in “— Our investment funds make investments in companies that we do not control.”

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

***Our investment funds make investments in companies that we do not control.***

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in “— We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments”) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those



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investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

***We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds' portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,
- heightened exposure to corruption risk in non-U.S. markets,
- political hostility to investments by foreign or private equity investors,
- less publicly available information in respect of companies in non-U.S. markets,
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,
- higher rates of inflation,
- higher transaction costs,
- difficulty in enforcing contractual obligations,
- fewer investor protections and less publicly available information in respect of companies in non-U.S. markets,
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and
- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

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***We may not have sufficient cash to pay back “clawback” obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds, real estate debt funds and certain multi-asset class and/or opportunistic investment funds), as a result of diminished performance of later investments in any carry fund’s life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) the fund’s net profits over the life of the fund, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled on an after tax basis. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and performance of other funds are not netted for determining this contingent obligation. To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally an additional 50%) beyond what we actually received in carried interest, although we retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company’s affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years), subject to the applicable fund’s specific redemption provisions. In a declining market, the pace

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of redemptions and consequent reduction in our assets under management could accelerate. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice. In addition, the boards of directors of the investment management companies we manage, or the adviser in respect of the registered business development company we sub-advise, could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a "clawback" obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund, then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an "assignment," without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end mutual funds, each investment fund's investment management agreement must be approved annually by the independent members of such investment fund's board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an

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investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. Third-party investors in private equity, real estate and venture capital funds typically use distributions from prior investments to meet future capital calls. In cases where valuations of investors' existing investments fall and the pace of distributions slows, investors may be unable to make new commitments to third-party managed investment funds such as those advised by us. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.***

Because of our various lines of asset management and advisory businesses, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment or issuers that are our advisory clients. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

***Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. Also, our decision to pursue a fund investment opportunity could preclude our ability to obtain a related advisory assignment, and vice versa. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

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### ***Risk management activities may adversely affect the return on our funds' investments.***

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

While such hedging arrangements may reduce certain risks, such arrangements themselves may entail certain other risks. These arrangements may require the posting of cash collateral at a time when a fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, that reduce the returns generated by a fund. Finally, the CFTC has made several public statements that it may soon issue a proposal for certain foreign exchange products to be subject to mandatory clearing, which could increase the cost of entering into currency hedges.

### ***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, operating income, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. In addition, our real estate funds may also make investments in residential real estate projects and/or otherwise participate in financing opportunities relating to residential real estate assets or portfolios thereof from time to time, which may be more highly susceptible to adverse changes in prevailing economic and/or market conditions and present additional risks relative to the ownership and operation of commercial real estate assets.

### ***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled

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companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation. In addition, in a recent 2013 federal Circuit Court case, the Court determined that a private equity fund could be liable for ERISA Title IV pension obligations (including withdrawal liability incurred with respect to union multiemployer plans) of its portfolio companies, if such fund is a "trade or business" and the fund's ownership interest in the portfolio company is significant enough to bring the portfolio company within its "controlled group". While a number of cases have held that managing investments is not a "trade or business" for tax purposes, the Circuit Court in this case concluded the a private equity fund could be a "trade or business" for ERISA purposes based on certain factors, including the fund's level of involvement in the management of its portfolio companies and the nature of its management fee arrangements. The Circuit Court case did not conclude whether the fund in question and its portfolio companies were part of the same "controlled group".

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, nearly 70% of the investments of our real estate funds (based on current fair values) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***Investments by our funds in the power and energy industries involve various operational, construction and regulatory risks that could adversely affect our results of operations, liquidity and financial condition.***

The development, operation and maintenance of power and energy generation facilities involves many risks, including, as applicable, labor issues, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, the dependence on a specific fuel source or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses. In turn, such developments could impair a portfolio company's ability to repay its debt or conduct its operations. We may also choose or be required to decommission a power generation facility or other asset. The decommissioning process could be protracted and result in the incurrence of significant financial and/or regulatory obligations or other uncertainties.

Our power and energy sector portfolio companies may also face construction risks typical for power generation and related infrastructure businesses. Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, and could prevent completion of construction activities once undertaken. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher operation and maintenance costs related to such portfolio company.

The power and energy sectors are the subject of substantial and complex laws, rules and regulation by various federal and state regulatory agencies. Failure to comply with applicable laws, rules and regulations could result in

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the prevention of operation of certain facilities or the prevention of the sale of such a facility to a third party, as well as the loss of certain rate authority, refund liability, penalties and other remedies, all of which could result in additional costs to a portfolio company and adversely affect the investment results.

Our businesses that invest in the energy industry also focus on investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including:

- the use of new technologies, including hydraulic fracturing,
- reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data for each reservoir,
- encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks, and
- the volatility of oil and natural gas prices.

### ***The financial projections of our portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

### ***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

### ***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

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### *Hedge fund investments are subject to numerous additional risks.*

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.
- Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.
- Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many



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cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets.

### *We are subject to risks in using prime brokers, custodians, counterparties, administrators and other agents.*

Many of our funds depend on the services of prime brokers, custodians, counterparties, administrators and other agents to carry out certain securities and derivatives transactions. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight, although the Dodd-Frank Act provides for new regulation of the derivatives market. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur suddenly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack contractual recourse or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which is when defaults are most likely to occur.

In addition, our risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not have taken sufficient action to reduce our risks effectively. Default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

Although we have risk-management models and processes to ensure that we are not exposed to a single counterparty for significant periods of time, given the large number and size of our funds, we often have large positions with a single counterparty. For example, most of our funds have credit lines. If the lender under one or more of those credit lines were to become insolvent, we may have difficulty replacing the credit line and one or more of our funds may face liquidity problems.

In the event of a counterparty default, particularly a default by a major investment bank or a default by a counterparty to a significant number of our contracts, one or more of our funds may have outstanding trades that they cannot settle or are delayed in settling. As a result, these funds could incur material losses and the resulting market impact of a major counterparty default could harm our businesses, results of operation and financial condition.

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In the event of the insolvency of a prime broker, custodian, counterparty or any other party that is holding assets of our funds as collateral, our funds might not be able to recover equivalent assets in full as they will rank among the prime broker's, custodian's or counterparty's unsecured creditors in relation to the assets held as collateral. In addition, our funds' cash held with a prime broker, custodian or counterparty generally will not be segregated from the prime broker's, custodian's or counterparty's own cash, and our funds may therefore rank as unsecured creditors in relation thereto. If our derivatives transactions are cleared through a derivatives clearing organization, the CFTC has issued final rules regulating the segregation and protection of collateral posted by customers of cleared and uncleared swaps. The CFTC is also working to provide new guidance regarding prime broker arrangements and intermediation generally with regard to trading on swap execution facilities.

The counterparty risks that we face have increased in complexity and magnitude as a result of disruption in the financial markets in recent years. For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In addition, counterparties have generally reacted to recent market volatility by tightening their underwriting standards and increasing their margin requirements for all categories of financing, which has the result of decreasing the overall amount of leverage available and increasing the costs of borrowing.

### **Risks Related to Our Financial Advisory Business**

#### ***Financial advisory fees are not long-term contracted sources of revenue and are not predictable.***

The fees earned by our financial advisory business are typically payable upon the successful completion of a particular transaction or restructuring. A decline in our financial advisory engagements or the market for advisory services would adversely affect our business.

Our financial advisory business operates in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue generating engagement typically is separately solicited, awarded and negotiated. In addition, many businesses do not routinely engage in transactions requiring our services. As a consequence, our fee-paying engagements with many clients are not predictable and high levels of financial advisory revenue in one quarter are not necessarily predictive of continued high levels of financial advisory revenue in future periods. In addition to the fact that most of our financial advisory engagements are single, non-recurring engagements, we lose clients each year as a result of a client's decision to retain other financial advisors, the sale, merger or restructuring of a client, a change in a client's senior management and various other causes. Moreover, in any given year our financial advisory engagements may be limited to a relatively smaller number of clients and an even smaller number of those clients may account for a disproportionate percentage of our financial advisory revenues in any such year. As a result, the adverse impact on our results of operations of one lost engagement or the failure of one transaction or restructuring on which we are advising to be completed could be significant. Revenue volumes in our financial advisory business tend to be affected by economic and capital market conditions, with greater merger activity — and therefore higher revenues in our financial and strategic advisory services business — generally occurring when the economy is growing, and more bankruptcies and restructurings — and therefore higher revenues in our Restructuring and Reorganization Advisory Services business — generally occurring in weak economic periods. Accordingly, our financial advisory revenue can fluctuate up or down considerably depending on economic conditions.

The fees earned by Park Hill Group, our fund placement business, are generally recognized by us for accounting purposes upon the successful subscription by an investor in a client's fund and/or the closing of that fund. However, those fees are typically actually paid by a Park Hill Group client over a period of time (for example, two to three years) following such successful subscription by an investor in a client's fund and/or the closing of that fund with interest. There is a risk that during that period of time, Park Hill Group may not be able to collect on all or a portion of the fees Park Hill is due for the placement services it has already provided to such client. For instance, a Park Hill client's fund may be liquidated prior to the time that all or a portion of the fees due to Park Hill for its

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placement services are due to be paid. Moreover, to the extent fewer assets are raised for funds or interest by investors in alternative asset funds declines, the fees earned by Park Hill Group would be adversely affected.

### ***We face strong competition from other financial advisory firms.***

The financial advisory industry is intensely competitive, and we expect it to remain so. We compete on both a regional and global basis, and on the basis of a number of factors, including the quality of our employees, depth of client relationship, industry knowledge, transaction execution skills, our range of products and services, innovation and reputation and price. We have always experienced intense competition over obtaining advisory mandates, and we may experience pricing pressures in our financial advisory business in the future as some of our competitors seek to obtain increased market share by reducing fees. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

### ***Underwriting activities expose us to risks.***

We act as an underwriter in securities offerings through Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial advisory business. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

## **Risks Related to Our Organizational Structure**

### ***Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.***

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding

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limited liability matters. As of December 31, 2014, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 50.8% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.

***Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.***

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under "— Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business", our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

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***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,
- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds and certain of our subsidiaries engaged in our advisory business have contractual duties to their clients, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,
- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,
- other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,
- our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,
- our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us,
- our general partner controls the enforcement of obligations owed to us by it and its affiliates, and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See “Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence” and “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

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***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See “Part III. Item 10. Directors, Executive Officers and Corporate Governance — Partnership Management and Governance — Conflicts Committee.”

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### ***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone's track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

### ***We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.***

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to our unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities

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for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

***The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.***

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2014, we have \$458.8 million of finite-lived intangible assets (in addition to \$1.8 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from three to twenty years, using the straight-line method, with a weighted-average remaining amortization period of 6.9 years as of December 31, 2014. In addition, as part of the reorganization at the time of our IPO, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units (which was \$31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the "corporate taxpayers," would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate



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taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings Partnership Units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings Partnership Units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings Partnership Units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an “investment company” under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an “investment company” for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and financial advisory firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an “orthodox” investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings Partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings Partnerships and are vested with all management and control over the Blackstone Holdings Partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not

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believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

### Risks Related to Our Common Units

#### *Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 533,288,534 voting common units outstanding as of February 24, 2015. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 550,853,151 Blackstone Holdings Partnership Units outstanding as of February 24, 2015. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings Partnership Units. See "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence — Transactions with Related Persons — Registration Rights Agreement". While the partnership agreements of the Blackstone Holdings Partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it 101,334,234 non-voting common units for \$3.00 billion at a purchase price per common unit of \$29.605. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

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As of February 24, 2015, we had granted 23,086,495 outstanding deferred restricted common units and 37,663,840 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan (“2007 Equity Incentive Plan”). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 147,196,242 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 24, 2015. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

***The market price of our common units may be volatile, which could cause the value of your investment to decline.***

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

### **Risks Related to United States Taxation**

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or “IRS,” and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships.

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The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the “Qualifying Income Exception”), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under “— The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units”, the U.S. Congress has considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders’ beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The value of our common units depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed

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again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See “— The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.” For example, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the 1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder’s tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder’s tax basis in the units), but will instead report the holder’s allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or “CFC,” and a Passive Foreign Investment Company, or “PFIC,” may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

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***The Blackstone Group L.P.'s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

***If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings Partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

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### ***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or “ECI.” Moreover, dividends paid by an investment that we make in a real estate investment trust, or “REIT,” that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

### ***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as deriving income that constitutes “unrelated business taxable income,” or “UBTI.” Consequently, a holder of common units that is a tax-exempt organization may be subject to “unrelated business income tax” to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

### ***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders’ tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

### ***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not

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reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

*We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that common unitholders may be required to file amended income tax returns.*

It will most likely require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each common unitholder.

*Certain U.S. holders of common units are subject to additional tax on “net investment income.”*

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on “net investment income” (or undistributed “net investment income,” in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person’s adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. Net income and gain attributable to an investment in the Partnership will be included in a U.S. holder’s “net investment income” subject to this Medicare tax.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2014, we lease our offices in Atlanta, Beijing, Boston, Chicago, Dubai, Dublin, Düsseldorf, Hong Kong, Houston, London, Los Angeles, Madrid, Menlo Park, Montecito, Mumbai, Paris, San Francisco, Santa Monica, Seoul, Shanghai, Singapore, Sydney and Tokyo. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

### **ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “— Item 1A. Risk Factors” above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone’s financial results in any particular period.



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In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts ( *Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.* ). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. On July 28, 2014, Blackstone entered into a settlement agreement to resolve all of plaintiffs' claims without any admission of wrongdoing. The settlement agreement provides for a settlement payment to the class that was substantially covered by insurance and did not have a material effect on our consolidated financial statements. On August 7, 2014, plaintiffs filed a motion for preliminary approval of the settlement agreement, and the agreement was preliminarily approved by the court on September 29, 2014. The settlement agreement is also subject to final approval by the court and the court held a final settlement approval hearing on February 11, 2015.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

PART II.

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common units representing limited partner interests are traded on the New York Stock Exchange (“NYSE”) under the symbol “BX.” Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 24, 2015 was 82. This does not include the number of unitholders that hold common units in “street name” through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per common unit, for the periods indicated, as reported by the NYSE and the per unit common unitholder distributions for the indicated fiscal quarters:

	2014			2013		
	High	Low	Common Unitholder Distributions (a)	High	Low	Common Unitholder Distributions (a)
First Quarter	\$35.39	\$29.51	\$ 0.35	\$21.09	\$15.93	\$ 0.30
Second Quarter	\$34.48	\$27.56	\$ 0.55	\$23.80	\$18.76	\$ 0.23
Third Quarter	\$36.08	\$30.71	\$ 0.44	\$25.61	\$20.32	\$ 0.23
Fourth Quarter	\$34.70	\$26.56	\$ 0.78	\$31.94	\$24.54	\$ 0.58

(a) Per common unit, presented on a fiscal quarter basis.

**Cash Distribution Policy**

With respect to fiscal year 2014, we have paid to common unitholders distributions of \$0.35, \$0.55, \$0.44 and \$0.78 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.12 per common unit. We have also paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.38, \$0.60, \$0.56 and \$0.92 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.46 per Blackstone Holdings Partnership Unit.

With respect to fiscal year 2013, we paid to common unitholders distributions of \$0.30, \$0.23, \$0.23 and \$0.58 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.34 per common unit. We also paid \$0.31, \$0.28, \$0.26 and \$0.67 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.52 per Blackstone Holdings Partnership Unit.

Distributable Earnings, which is derived from Blackstone’s segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.’s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone’s general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its

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business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders or even to eliminate such distributions entirely.

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

- First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),
- Second, we cause The Blackstone Group L.P.'s wholly owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreement by such wholly owned subsidiaries, and
- Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis.

Because the wholly owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 17. "Related Party Transactions" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data", the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

In addition, the partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

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### Unit Repurchases in the Fourth Quarter of 2014

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended December 31, 2014, no units were repurchased. See “— Item 8. Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 15. Net Income (Loss) Per Common Unit” and “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Liquidity Needs” for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

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### ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of financial condition and income data as of and for the five years ended December 31, 2014 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2014 and 2013 and the Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2011, 2010 and 2009 and the Consolidated Statements of Operations for the years ended December 31, 2010 and 2009 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with “— Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$2,497,252	\$2,193,985	\$2,030,693	\$1,811,750	\$1,584,748
Performance Fees	4,374,262	3,544,057	1,593,052	1,182,660	937,834
Investment Income	534,000	800,308	350,194	213,323	561,161
Interest and Dividend Revenue and Other	79,214	74,818	45,502	44,843	35,599
<b>Total Revenues</b>	<u>7,484,728</u>	<u>6,613,168</u>	<u>4,019,441</u>	<u>3,252,576</u>	<u>3,119,342</u>
<b>Expenses</b>					
Compensation and Benefits	3,154,371	3,257,667	2,605,244	2,738,425	3,610,189
General, Administrative and Other	549,463	474,442	548,738	566,313	466,358
Interest Expense	121,524	107,973	72,870	57,824	41,229
Fund Expenses	30,498	26,658	33,829	25,507	26,214
<b>Total Expenses</b>	<u>3,855,856</u>	<u>3,866,740</u>	<u>3,260,681</u>	<u>3,388,069</u>	<u>4,143,990</u>
<b>Other Income</b>					
Reversal of Tax Receivable Agreement Liability	—	20,469	—	197,816	—
Net Gains from Fund Investment Activities	357,854	381,664	256,145	14,935	501,994
<b>Total Other Income</b>	<u>357,854</u>	<u>402,133</u>	<u>256,145</u>	<u>212,751</u>	<u>501,994</u>
<b>Income (Loss) Before Provision for Taxes</b>	<u>3,986,726</u>	<u>3,148,561</u>	<u>1,014,905</u>	<u>77,258</u>	<u>(522,654)</u>
<b>Provision for Taxes</b>	<u>291,173</u>	<u>255,642</u>	<u>185,023</u>	<u>345,711</u>	<u>84,669</u>
<b>Net Income (Loss)</b>	<u>3,695,553</u>	<u>2,892,919</u>	<u>829,882</u>	<u>(268,453)</u>	<u>(607,323)</u>
<b>Net Income (Loss) Attributable to Redeemable Non- Controlling Interests in Consolidated Entities</b>					
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	74,794	183,315	103,598	(24,869)	87,651
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	335,070	198,557	99,959	7,953	343,498
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>1,701,100</u>	<u>1,339,845</u>	<u>407,727</u>	<u>(83,234)</u>	<u>(668,444)</u>
	<u>\$1,584,589</u>	<u>\$1,171,202</u>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>	<u>\$ (370,028)</u>

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>Net Income (Loss) Per Common Unit, Basic and Diluted</b>					
Common Units, Basic	\$2.60	\$2.00	\$0.41	\$(0.35)	\$(1.02)
Common Units, Diluted	\$2.58	\$1.98	\$0.41	\$(0.35)	\$(1.02)
<b>Distributions Declared Per Common Unit (a)</b>	\$1.92	\$1.18	\$0.52	\$ 0.62	\$ 0.60

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal year 2014, we declared a final fourth quarter distribution per common unit of \$0.78, which was paid in February 2015.

	December 31,				
	2014	2013	2012	2011	2010
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$31,510,894	\$29,678,606	\$28,931,552	\$21,909,129	\$18,844,605
Senior Notes	\$ 2,150,503	\$ 1,664,306	\$ 1,670,853	\$ 1,051,705	\$ 1,010,911
Total Liabilities (a)	\$14,177,347	\$15,300,935	\$17,716,605	\$12,656,843	\$10,591,248
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 2,441,854	\$ 1,950,442	\$ 1,556,185	\$ 1,091,833	\$ 659,390
Total Partners' Capital	\$14,891,693	\$12,427,229	\$ 9,658,762	\$ 8,160,453	\$ 7,593,967

- (a) The increase in total assets and total liabilities from December 31, 2011 to December 31, 2012 was principally due to the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser and the resultant GAAP required consolidation of certain managed CLO vehicles.

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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

#### Our Business

Blackstone is one of the largest independent managers of private capital in the world. We also provide a wide range of financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into five business segments:

- **Private Equity** . We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners ("BCP") funds. Our Private Equity segment also includes Blackstone Tactical Opportunities Accounts ("Tactical Opportunities"), which are multi-asset class investment accounts, Strategic Partners Fund Solutions ("Strategic Partners"), a secondary private fund of funds business and Blackstone Total Alternatives Solution ("BTAS"), a new investment program for eligible high net worth investors offering exposure to Blackstone's key illiquid investment strategies through a single commitment. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.
- **Real Estate**. We are a world leader in real estate investing, having built the largest private real estate investment business in the world since our start in 1991. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, a publicly traded real estate investment trust ("BXMT") and core+ real estate investments, including the 2014 launch of our first commingled U.S.-focused open ended core+ fund. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. Our core+ funds target stabilized office, multifamily, industrial, and retail assets globally. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ("BREP") funds, our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ("BREDS") funds and our core+ investment funds as our Blackstone Property Partners ("BPP") funds.
- **Hedge Fund Solutions**. Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.
- **Credit**. Our Credit segment is comprised principally of GSO Capital Partners LP ("GSO"), a global leader in managing credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ("CLO") vehicles.
- **Financial Advisory**. Our Financial Advisory segment serves a diverse and global group of clients with financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds.

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We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial and strategic advisory, restructuring and reorganization advisory, capital markets services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as “Performance Fees”). The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company’s industry, the overall economy and other market conditions.

### Business Environment

Blackstone’s businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

Global equity and debt markets generally had another positive year in 2014, although returns were significantly lower than 2013 levels, with a sharp increase in volatility late in the year. The CBOE Volatility Index rose 40% during 2014, and high yield spreads widened sharply in the fourth quarter, largely driven by weakness in the energy sector, as investors considered the implications of a steep decline in oil prices.

The outlook for global economic growth deteriorated throughout the year, resulting in sustained or increased accommodative monetary policies from several central banks. However, economic activity in the U.S. continued to strengthen and the unemployment rate declined further to a stated rate of 5.6% at year end. The S&P 500 rose 11.4% for the year, making it one of the best-performing developed equity markets. The U.S. dollar strengthened sharply against most major currencies, and that has continued into 2015.

The U.S. Federal Reserve ended its quantitative easing program in October, but reiterated its plans to maintain the federal funds rate at historically low levels for the intermediate term. Contrary to market expectations in early 2014, benchmark rates fell further during the year, with the 10-Year Treasury yield declining 86 basis points to 2.17%.

The global real estate investment environment is generally characterized by limited new supply and moderate levels of debt capital. In the U.S., real estate fundamentals appear healthy. Although distress is limited, new construction remains well below historic levels, and when combined with a strengthening economy, supports improving fundamentals across nearly every real estate asset class. Real estate debt markets in the U.S. have also recovered, with \$94 billion in 2014 commercial mortgage backed securities issuance significantly up from post-crisis lows, but remain less than half of the pre-crisis high of \$229 billion. There continues to be distress in European real estate markets. The European lending environment also remains dislocated, while bank deleveraging due to enhanced regulatory pressures drove asset sales north of €80 billion in 2014. In Asia, economic growth in China and India have moderated yet continue to support robust demand dynamics. Ongoing capital market dislocation across emerging markets in Asia has provided minimal liquidity for real estate owners and reduced financing for new construction.

### Significant Transaction

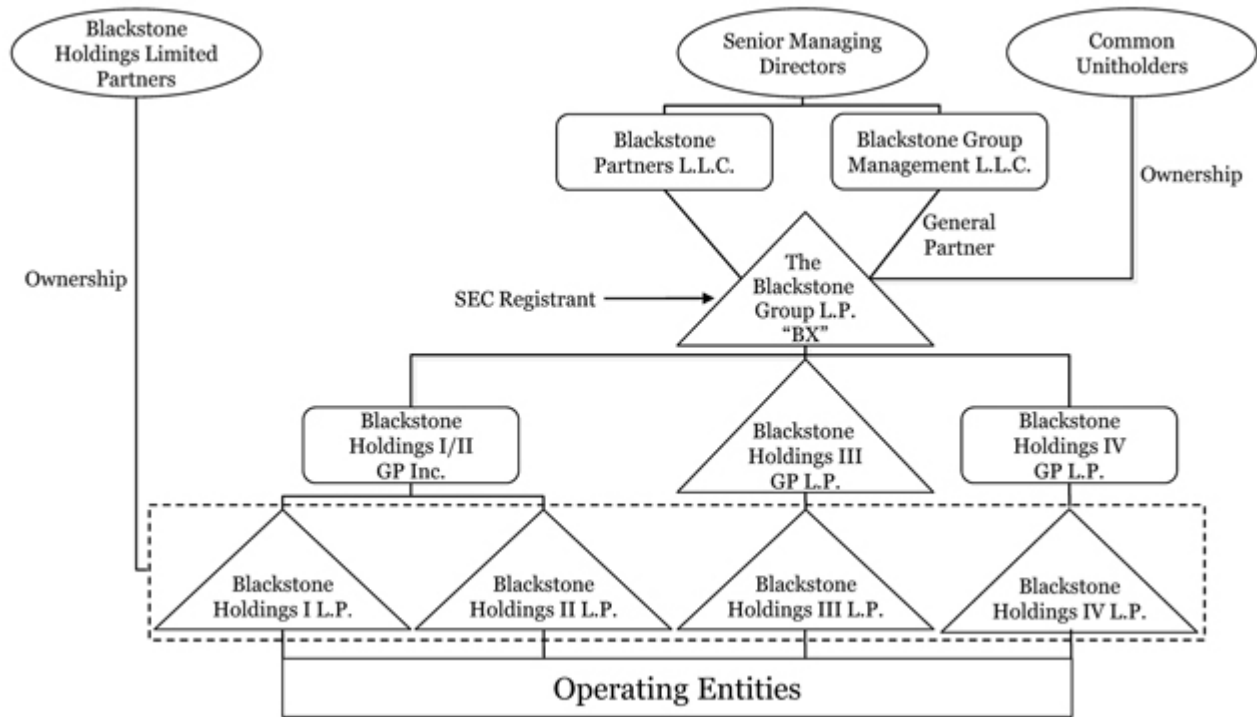
On October 10, 2014, Blackstone announced that its Board of Directors had approved a plan to spin off its financial and strategic advisory services, restructuring and reorganization advisory services, and its Park Hill fund placement businesses and combine these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman. Blackstone’s capital markets business will not be part of the transaction, and will be retained by Blackstone. The parties expect the transaction to close in 2015. The new entity will be an independent, publicly traded company, which will be led by Mr. Taubman as Chairman and Chief Executive Officer. The transaction is intended to be tax-free to Blackstone and Blackstone’s unitholders.



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### Organizational Structure

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.



### Key Financial Measures and Indicators

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

### Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to "Part I. Item 1. Business — Incentive Arrangements / Fee Structure" and "— Critical Accounting Policies, Revenue Recognition" for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the

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amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

*Other Operating Expenses* — Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses* — The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

### **Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and

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employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

### *Redeemable Non-Controlling Interests in Consolidated Entities*

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### *Non-Controlling Interests in Blackstone Holdings*

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

### *Income Taxes*

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the consolidated financial statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

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Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or "ISPI", as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

The Obama administration proposed policies similar to Congress that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposal would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2013 and prior years.

On February 26, 2014, Representative Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the "2014 Camp Proposal"). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

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If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a "worldwide" system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Senator Baucus recently proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### *Economic Income*

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's initial public offering ("IPO") and long-term retention programs outside of annual deferred compensation and other

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corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income (“ENI”) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data”.)

### *Fee Related Earnings*

Blackstone uses Fee Related Earnings (“FRE”), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone’s investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone’s Treasury Cash Management Strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone’s Treasury Cash Management Strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our discussion of Fee Related Earnings.

### *Distributable Earnings*

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under GAAP (a “non-GAAP” measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

### *Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization*

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization (“Adjusted EBITDA”), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See “— Liquidity and Capital Resources — Sources of Liquidity” below for our calculation of Adjusted EBITDA.

### *Summary Walkdown of GAAP to Non-GAAP Financial Metrics*

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship

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between the measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see “— Liquidity and Capital Resources — Sources of Liquidity.”

(Dollars in Millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>GAAP</b>	<b>Income Before Provision for Taxes</b>		
	<b>\$3,987</b>	<b>\$3,149</b>	<b>\$1,015</b>
	+ IPO and Acquisition-Related Charges – Impact of Consolidated Funds		
<b>Economic Income “EI”</b>	<b>= Economic Income</b>		
	<b>\$4,544</b>	<b>\$3,596</b>	<b>\$2,041</b>
	– Net Performance Fees – Fund Investment Income		
<b>Fee Related Earnings “FRE”</b>	<b>= Fee Related Earnings</b>		
	<b>\$967</b>	<b>\$745</b>	<b>\$700</b>
	+ Net Realized Performance Fees + Realized Investment Income – Taxes and Related Payables + Equity-Based Compensation		
<b>Distributable Earnings “DE”</b>	<b>= Distributable Earnings</b>		
	<b>\$3,058</b>	<b>\$1,863</b>	<b>\$1,124</b>

### Operating Metrics

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,



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- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management*. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of

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invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested* . Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

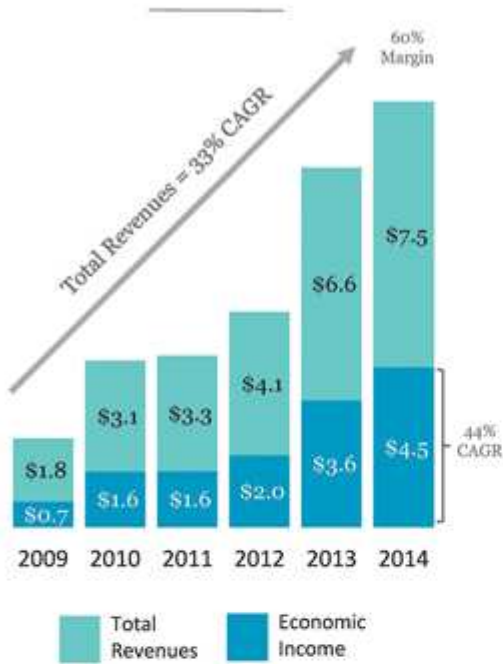
The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

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**Financial Highlights**

The following charts highlight certain financial metrics <sup>(a)</sup>:

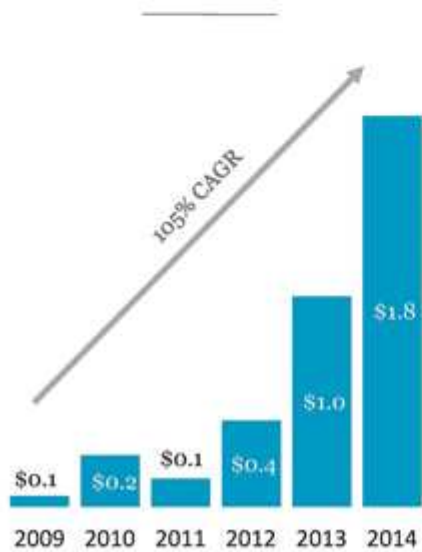
**Total Revenues and Economic Income**  
(Dollars in Billions)



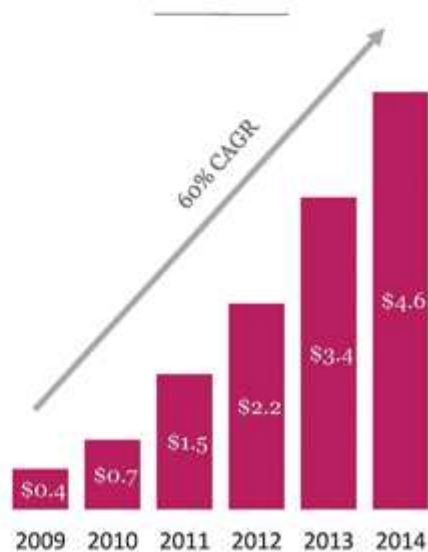
**Distributable Earnings**  
(Dollars in Billions)



**Net Realized Performance Fees**  
(Dollars in Billions)



**Net Performance Fee Receivable**  
(Dollars in Billions)



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- (a) Total Revenues represents the total segment amounts. Net Realized Performance Fees represents total segment Performance Fees for Realized Carried Interest and Realized Incentive Fees less Performance Fee Compensation for Realized Carried Interest and Realized Incentive Fees. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing. CAGR is the compound annual growth rate. Net Realization Activity represents the sum of Net Realized Incentive Fees, Net Realized Carried Interest, Net Realized Investment Income, Taxes and Related Payables and Equity-Based Compensation. For the components of Net Realization Activity, other than Economic Income, see the reconciliation of Fee Related Earnings, Distributable Earnings and Economic Net Income at “— Liquidity and Capital Resources — Sources of Liquidity” below. For Net Performance Fee Receivable, see “— Consolidated Results of Operations — Net Accrued Performance Fees” below.

### Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2014. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “— Segment Analysis” below.

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The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
(Dollars in Thousands)							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$2,497,252	\$2,193,985	\$2,030,693	\$ 303,267	14%	\$ 163,292	8%
Performance Fees							
Realized							
Carried Interest	2,450,082	943,958	327,422	1,506,124	160%	616,536	188%
Incentive Fees	249,005	464,838	301,801	(215,833)	-46%	163,037	54%
Unrealized							
Carried Interest	1,704,924	2,158,010	994,190	(453,086)	-21%	1,163,820	117%
Incentive Fees	(29,749)	(22,749)	(30,361)	(7,000)	-31%	7,612	25%
Total Performance Fees	4,374,262	3,544,057	1,593,052	830,205	23%	1,951,005	122%
Investment Income							
Realized							
Carried Interest	523,735	188,644	93,963	335,091	178%	94,681	101%
Unrealized	10,265	611,664	256,231	(601,399)	-98%	355,433	139%
Total Investment Income	534,000	800,308	350,194	(266,308)	-33%	450,114	129%
Interest and Dividend Revenue	69,809	64,511	40,354	5,298	8%	24,157	60%
Other	9,405	10,307	5,148	(902)	-9%	5,159	100%
<b>Total Revenues</b>	<b>7,484,728</b>	<b>6,613,168</b>	<b>4,019,441</b>	<b>871,560</b>	<b>13%</b>	<b>2,593,727</b>	<b>65%</b>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	1,868,868	1,844,485	2,091,698	24,383	1%	(247,213)	-12%
Performance Fee Compensation							
Realized							
Carried Interest	815,643	257,201	96,433	558,442	217%	160,768	167%
Incentive Fees	110,099	200,915	140,042	(90,816)	-45%	60,873	43%
Unrealized							
Carried Interest	379,037	966,717	321,599	(587,680)	-61%	645,118	201%
Incentive Fees	(19,276)	(11,651)	(44,528)	(7,625)	-65%	32,877	74%
Total Compensation and Benefits	3,154,371	3,257,667	2,605,244	(103,296)	-3%	652,423	25%
General, Administrative and Other	549,463	474,442	548,738	75,021	16%	(74,296)	-14%
Interest Expense	121,524	107,973	72,870	13,551	13%	35,103	48%
Fund Expenses	30,498	26,658	33,829	3,840	14%	(7,171)	-21%
<b>Total Expenses</b>	<b>3,855,856</b>	<b>3,866,740</b>	<b>3,260,681</b>	<b>(10,884)</b>	<b>-0%</b>	<b>606,059</b>	<b>19%</b>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	—	20,469	—	(20,469)	-100%	20,469	N/M
Net Gains from Fund Investment Activities	357,854	381,664	256,145	(23,810)	-6%	125,519	49%
<b>Total Other Income</b>	<b>357,854</b>	<b>402,133</b>	<b>256,145</b>	<b>(44,279)</b>	<b>-11%</b>	<b>145,988</b>	<b>57%</b>
<b>Income Before Provision for Taxes</b>	<b>3,986,726</b>	<b>3,148,561</b>	<b>1,014,905</b>	<b>838,165</b>	<b>27%</b>	<b>2,133,656</b>	<b>210%</b>
<b>Provision for Taxes</b>	<b>291,173</b>	<b>255,642</b>	<b>185,023</b>	<b>35,531</b>	<b>14%</b>	<b>70,619</b>	<b>38%</b>
<b>Net Income</b>	<b>3,695,553</b>	<b>2,892,919</b>	<b>829,882</b>	<b>802,634</b>	<b>28%</b>	<b>2,063,037</b>	<b>249%</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>							
	74,794	183,315	103,598	(108,521)	-59%	79,717	77%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>							
	335,070	198,557	99,959	136,513	69%	98,598	99%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>							
	1,701,100	1,339,845	407,727	361,255	27%	932,118	229%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<b>\$1,584,589</b>	<b>\$1,171,202</b>	<b>\$ 218,598</b>	<b>\$ 413,387</b>	<b>35%</b>	<b>\$ 952,604</b>	<b>436%</b>

N/M Not meaningful.

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### *Revenues*

Total Revenues were \$7.5 billion for the year ended December 31, 2014, an increase of \$871.6 million, or 13%, compared to \$6.6 billion for the year ended December 31, 2013. The increase was primarily attributable to increases in Performance Fees and Management and Advisory Fees, Net of \$830.2 million and \$303.3 million, respectively. These increases were partially offset by a decrease in Investment Income of \$266.3 million.

The increase in Performance Fees was primarily driven by increases in our Private Equity segment of \$1.2 billion, principally due to performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively, with BCP V crossing its preferred return threshold during the period. Performance Fees in our Real Estate segment decreased by \$137.8 million to \$2.0 billion due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, was driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion). Performance Fees decreased by \$75.8 million in our Hedge Fund Solutions segment due to lower returns. Performance Fees decreased by \$199.9 million in our Credit segment due to challenging market conditions for lower rated credits in our hedge fund strategies business and a lower rate of appreciation in our rescue lending business.

The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions segment of \$72.0 million, our Private Equity segment of \$71.9 million, our Real Estate segment of \$63.6 million, and our Credit segment of \$63.8 million. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Private Equity segment was primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. The increase in our Real Estate segment was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio. The increase in our Credit segment was driven by the incremental capital raised for our hedge fund strategies business and business development companies.

The decrease in Investment Income was primarily due to decreases in our Real Estate and Private Equity segments of \$152.4 million and \$71.0 million, respectively. The decrease in our Real Estate segment was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds. The decrease in our Private Equity segment was driven by our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year but were slightly lower than the returns generated in the full year 2013.

Total Revenues were \$6.6 billion for the year ended December 31, 2013, an increase of \$2.6 billion, or 65%, compared to \$4.0 billion for the year ended December 31, 2012. Performance Fees and Investment Income increased between these periods by \$2.0 billion and \$450.1 million, respectively, and Management and Advisory Fees, Net increased by \$163.3 million.

Performance Fees in our Real Estate segment increased by \$1.3 billion due to the strong performance of our BREP carry funds and were primarily driven by valuation gains on investments within our BREP VI and BREP VII funds. The valuation gains were driven by the successful initial public offerings of Hilton, Extended Stay and Brixmor as well as gains resulting from improving fundamentals of Equity Office and Invitation Homes. Performance Fees in our Private Equity segment increased by \$470.0 million principally due to performance in our BCP IV, BEP and BCP VI funds, which had net returns of 23%, 36% and 12%, respectively. Performance Fees increased by \$123.0 million in our Hedge Fund Solutions segment due to the increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle, and therefore eligible for Performance Fees. Performance Fees increased by \$88.4 million in our Credit segment due to higher returns in our hedge fund strategies funds and continued strong underlying company performance in the portfolios of our carry funds.

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The increase in Investment Income was primarily due to increases in our Real Estate and Private Equity segments of \$266.4 million and \$138.6 million, respectively. The increase in our Real Estate segment was driven by valuation gains on investments across our global Real Estate funds including the successful initial public offerings of Hilton, Extended Stay and Brixmor. The increase in our Private Equity segment was driven by returns across all of our significant funds. The portfolio benefited from strong performance of our public holdings through the year, including the successful initial public offerings of Pinnacle Foods, SeaWorld Parks & Entertainment, Merlin Entertainments and Hilton, while our private portfolio benefited from investments in the healthcare, industrial and retail/consumer sectors.

The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions segment of \$61.6 million, our Financial Advisory segment of \$53.9 million, our Private Equity segment of \$16.7 million and our Real Estate segment of \$13.6 million. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Financial Advisory segment was due to the number and size of transactions completed during the year ended December 31, 2013 compared to the prior year. The increase in our Private Equity segment was primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles as well as the addition of the Strategic Partners secondary private fund of funds business. The increase in our Real Estate segment was primarily driven by the increase in funds raised for our BREP Asia, BREP Europe IV, BXMT and BREDS II funds offset by the expiration of the BREP IV fund and decrease in management fees earned by the acquired Asian real estate platform.

### *Expenses*

Expenses were \$3.9 billion for the year ended December 31, 2014, a decrease of \$10.9 million compared to \$3.9 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease in Performance Fee Compensation of \$127.7 million, partially offset by increases of \$75.0 million, \$24.4 million and \$13.6 million, respectively, in General, Administrative and Other, Compensation and Interest Expense. The decrease in Performance Fee Compensation was due to lower compensation ratios on Performance Fee Revenue and pre-IPO deals. A significant amount of the Performance Fees granted to employees on deals closed prior to the IPO were exchanged for units of Blackstone at the time of the IPO. Therefore, for these pre-IPO deals, Blackstone retains significantly more of the Performance Fees that it earns than it does for deals closed after the IPO. This results in lower Performance Fee Compensation for pre-IPO deals. A significant amount of the Performance Fees granted to employees on deals closed prior to the IPO were exchanged for units of Blackstone at the time of the IPO. Therefore, for these pre-IPO deals, Blackstone retains significantly more of the Performance Fees that it earns than it does for deals closed after the IPO. This results in lower Performance Fee Compensation for pre-IPO deals. The \$75.0 million increase in General, Administrative and Other was primarily due to spinoff transaction related charges, professional fees, occupancy increases and business development costs. The \$24.4 million increase in Compensation was due to an overall increase in revenue, on which compensation is based, offset by lower equity-based amortization charges on our transaction-related awards and a reduction of compensation expense due to a change in the terms of Deferred Compensation Plan awards which require future service and are therefore no longer expensed immediately. This resulted in \$102.6 million less Compensation recorded in the fourth quarter of 2014 than would have been recorded under the prior plan. The \$13.6 million increase in Interest Expense was primarily related to Blackstone's issuance of senior notes during the second quarter of 2014.

Expenses were \$3.9 billion for the year ended December 31, 2013, an increase of \$606.1 million, or 19%, compared to \$3.3 billion for the year ended December 31, 2012. The increase was primarily attributable to increases in Total Compensation and Benefits of \$652.4 million and Interest Expense of \$35.1 million, partially offset by a \$74.3 million decrease in General, Administrative and Other. The increase in Total Compensation and Benefits was comprised of a \$899.6 million increase in Performance Fee Compensation due to the increase in Performance Fees Revenue and partially offset by a \$247.2 million decrease in Compensation due mainly to a decrease in the equity-based amortization charges on our transaction-related awards. The \$35.1 million increase in Interest Expense was primarily related to Blackstone's issuance of senior notes during the third quarter of 2012. These increases were partially offset by a \$74.3 million decrease in General, Administrative and Other, which was primarily due to decreases in depreciation and amortization and professional expenses.

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### *Other Income*

Other Income was \$357.9 million for the year ended December 31, 2014, a decrease of \$44.3 million compared to \$402.1 million for the year ended December 31, 2013. The decrease was comprised of decreases in Net Gains from Fund Investment Activities of \$23.8 million and Reversal of Tax Receivable Agreement of \$20.5 million.

Other Income — Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income was eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

Other Income — Net Gains from Fund Investment Activities was \$357.9 million for the year ended December 31, 2014, a decrease of \$23.8 million compared to \$381.7 million for the year ended December 31, 2013. This decrease was primarily comprised of decreases in our Hedge Fund Solutions and Private Equity segments of \$99.4 million and \$25.0 million, respectively, partially offset by increases of \$40.7 million and \$39.4 million in our Real Estate and Credit segments, respectively. The decrease in our Hedge Fund Solutions segment was primarily the result of a decrease in investment performance from certain of our consolidated funds. The Real Estate increase was driven by valuation gains on investments across our global Real Estate funds. The increase in our Credit segment was primarily due to lower valuations on the liabilities of certain consolidated CLO vehicles, which led to increases in unrealized gains.

For the year ended December 31, 2014, there was no Reversal of Tax Receivable Agreement resulting in a decrease of \$20.5 million.

Other Income was \$402.1 million for the year ended December 31, 2013, an increase of \$146.0 million compared to \$256.1 million for the year ended December 31, 2012. The increase was comprised of an increase in Net Gains from Fund Investment Activities of \$125.5 million and income attributable to the reversal of the tax receivable agreement liability of \$20.5 million.

Other Income — Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income was eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

Other Income — Net Gains from Fund Investment Activities was \$381.7 million for the year ended December 31, 2013, an increase of \$125.5 million compared to \$256.1 million for the year ended December 31, 2012. This increase was primarily comprised of increases in our Hedge Fund Solutions, Real Estate and Private Equity segments of \$111.3 million, \$67.7 million and \$54.3 million, respectively, partially offset by a decrease of \$107.8 million in our Credit segment. The increase in our Hedge Fund Solutions segment was primarily the result of an increase in investment performance from certain of our consolidated funds. The Real Estate increase in 2013 was driven by valuation gains on investments across our global Real Estate funds. The Private Equity increase in 2013 was driven by returns across all of our significant funds. The decrease in our Credit segment was primarily due to higher valuations on the liabilities of the consolidated CLO vehicles, which led to increases in unrealized losses.

Also included in Other Income in 2013 was \$20.5 million of income attributable to the reversal of the tax receivable agreement liability.

### *Provision for Taxes*

Blackstone's Provision for Taxes for the years ended December 31, 2014, 2013 and 2012 was \$291.2 million, \$255.6 million and \$185.0 million, respectively. This resulted in an effective tax rate of 7.3%, 8.1% and 18.2%, respectively, based on our Income Before Provision for Taxes of \$4.0 billion, \$3.1 billion and \$1.0 billion, respectively.



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One factor contributed to the 0.8% decrease in the effective tax rate for the year ended December 31, 2014 compared to the year ended December 31, 2013. In 2014 and 2013, book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense does not change significantly in 2014 compared to 2013, the impact of the effective tax rate increase was 1.1% and 1.6% in 2014 and 2013, respectively, resulting from the significant increase in pre-tax book income in 2014 compared to 2013.

Two factors contributed to the 10.1% decrease in the effective tax rate for the year ended December 31, 2013 compared to the year ended December 31, 2012. First, pre-tax book income includes pre-tax income of \$2.6 billion for 2013 and pre-tax income of \$683.2 million for 2012 that is passed through to common unit holders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. The year over year change resulted in a decrease to the effective tax rate of 5.1% when comparing 2013 to 2012.

Second, in both 2013 and 2012, book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense does not change significantly in 2013 compared to 2012, the impact of the effective tax rate increase was 1.6% and 9.3% in 2013 and 2012, respectively, resulting from the significant increase in pre-tax book income in 2013 compared to 2012.

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 14. “Income Taxes” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.

### *Non-Controlling Interests in Consolidated Entities*

The Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income — Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities and the Reversal of Tax Receivable Agreement Liability, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the years ended December 31, 2014, 2013 and 2012, the net income before taxes allocated to Blackstone Holdings was 47.9%, 49.3% and 53.1%, respectively. The decreases of 1.4% and 3.8% were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

The Other Income — Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

### *Operating Metrics*

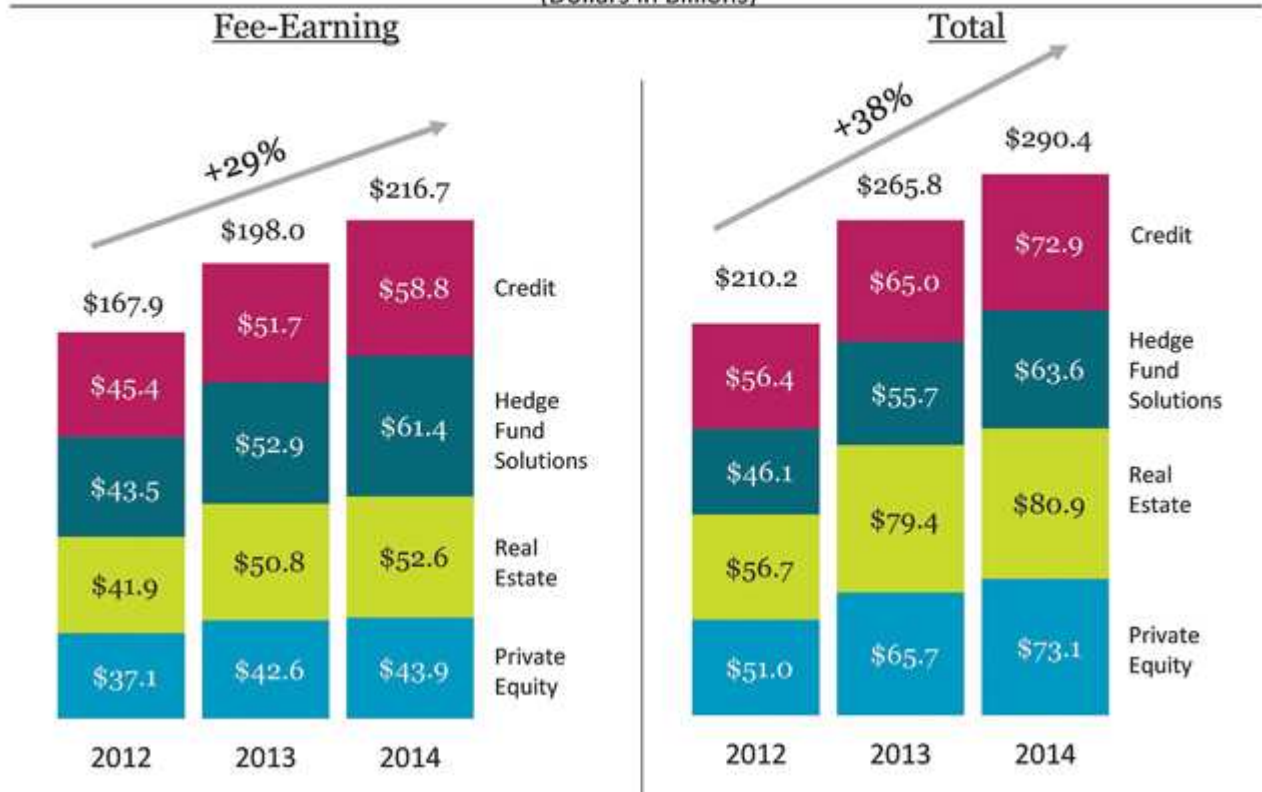
The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the years ended December 31, 2014, 2013

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and 2012. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see “— Key Financial Measures and Indicators — Operating Metrics — Assets Under Management and Fee-Earning Assets Under Management”.

## Assets Under Management by Segment

(Dollars in Billions)



Note: Totals may not add due to rounding.

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	Year Ended December 31,									
	2014					2013				
	Hedge Fund					Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)									
Fee-Earning Assets Under Management										
Balance, Beginning of Period	\$42,600,515	\$50,792,803	\$ 52,865,837	\$51,722,584	\$197,981,739	\$37,050,167	\$41,931,339	\$ 43,478,791	\$45,420,143	\$167,880,440
Inflows, including Commitments (a)	6,757,450	11,536,435	12,021,209	19,536,351	49,851,445	9,884,340	13,835,625	9,098,002	15,382,428	48,200,395
Outflows, including Distributions (b)	(1,124,355)	(295,067)	(5,362,968)	(3,915,309)	(10,697,699)	(392,882)	(1,329,763)	(3,626,636)	(2,085,211)	(7,434,492)
Realizations (c)	(4,733,564)	(8,719,534)	(312,486)	(7,028,884)	(20,794,468)	(4,025,167)	(3,649,494)	(348,126)	(8,871,543)	(16,894,330)
Net Inflows	899,531	2,521,834	6,345,755	8,592,158	18,359,278	5,466,291	8,856,368	5,123,240	4,425,674	23,871,573
Market Appreciation (Depreciation) (d)	390,121	(751,569)	2,205,966	(1,493,736)	350,782	84,057	5,096	4,263,806	1,876,767	6,229,726
Balance, End of Period (e)	\$43,890,167	\$52,563,068	\$ 61,417,558	\$58,821,006	\$216,691,799	\$42,600,515	\$50,792,803	\$ 52,865,837	\$51,722,584	\$197,981,739
Increase	\$ 1,289,652	\$ 1,770,265	\$ 8,551,721	\$ 7,098,422	\$ 18,710,060	\$ 5,550,348	\$ 8,861,464	\$ 9,387,046	\$ 6,302,441	\$ 30,101,299
Increase	3%	3%	16%	14%	9%	15%	21%	22%	14%	18%

	Year Ended December 31,				
	2012				
	Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)				
Fee-Earning Assets Under Management					
Balance, Beginning of Period	\$37,237,791	\$31,236,540	\$ 37,819,636	\$30,462,786	\$136,756,753
Inflows, including Commitments (a)	2,628,583	14,584,089	5,460,096	20,055,005	42,727,773
Outflows, including Distributions (b)	—	(1,486,257)	(2,871,612)	(1,700,137)	(6,058,006)
Realizations (c)	(2,844,946)	(2,530,057)	(143,677)	(4,811,088)	(10,329,768)
Net Inflows (Outflows)	(216,363)	10,567,775	2,444,807	13,543,780	26,339,999
Market Appreciation (d)	28,739	127,024	3,214,348	1,413,577	4,783,688
Balance, End of Period (e)	\$37,050,167	\$41,931,339	\$ 43,478,791	\$45,420,143	\$167,880,440
Increase (Decrease)	\$ (187,624)	\$10,694,799	\$ 5,659,155	\$14,957,357	\$ 31,123,687
Increase (Decrease)	-1%	34%	15%	49%	23%

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	Year Ended December 31,									
	2014					2013				
	Hedge Fund					Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)									
Total Assets Under Management										
Balance, Beginning of Period	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Inflows, including Commitments (a)	13,677,363	11,080,384	11,428,764	20,763,360	56,949,871	14,420,278	17,686,592	9,337,644	18,834,429	60,278,943
Outflows, including Distributions (b)	(1,624,064)	(896,394)	(5,430,780)	(4,219,797)	(12,171,035)	(653,357)	(1,049,598)	(3,854,587)	(2,810,710)	(8,368,252)
Realizations (c)	(15,379,066)	(20,389,808)	(416,882)	(8,433,213)	(44,618,969)	(9,584,276)	(8,298,220)	(447,960)	(11,195,989)	(29,526,445)
Net Inflows (Outflows)	(3,325,767)	(10,205,818)	5,581,102	8,110,350	159,867	4,182,645	8,338,774	5,035,097	4,827,730	22,384,246
Market Appreciation (Depreciation) (d)	10,723,988	11,658,217	2,347,105	(265,738)	24,463,572	10,489,413	14,376,369	4,529,861	3,757,781	33,153,424
Balance, End of Period (e)	\$ 73,073,252	\$ 80,863,187	\$ 63,585,670	\$ 72,858,960	\$ 290,381,069	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Increase	\$ 7,398,221	\$ 1,452,399	\$ 7,928,207	\$ 7,844,612	\$ 24,623,439	\$ 14,672,058	\$ 22,715,143	\$ 9,564,958	\$ 8,585,511	\$ 55,537,670
Increase	11%	2%	14%	12%	9%	29%	40%	21%	15%	26%

	Year Ended December 31,				
	2012				
	Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)				
Total Assets Under Management					
Balance, Beginning of Period	\$ 45,863,673	\$ 42,852,669	\$ 40,534,768	\$ 36,977,394	\$ 166,228,504
Inflows, including Commitments (a)	4,233,716	12,566,140	5,338,892	24,489,441	46,628,189
Outflows, including Distributions (b)	(76,495)	(262,300)	(2,983,054)	(2,429,344)	(5,751,193)
Realizations (c)	(3,452,647)	(3,926,671)	(184,798)	(5,179,250)	(12,743,366)
Net Inflows	704,574	8,377,169	2,171,040	16,880,847	28,133,630
Market Appreciation (d)	4,434,726	5,465,807	3,386,697	2,570,596	15,857,826
Balance, End of Period (e)	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Increase	\$ 5,139,300	\$ 13,842,976	\$ 5,557,737	\$ 19,451,443	\$ 43,991,456
Increase	11%	32%	14%	53%	26%

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2014 included \$266.2 million and \$345.1 million, respectively, from a joint venture in which we are the minority interest holder.

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### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$216.7 billion at December 31, 2014, an increase of \$18.7 billion, or 9%, compared to \$198.0 billion at December 31, 2013. The net increase was due to:

- Inflows of \$49.9 billion related to:
  - \$19.5 billion in our Credit segment driven by \$4.9 billion raised in our business development companies (“BDCs”), \$5.6 billion raised in CLO launches, \$3.9 billion raised in hedge fund strategies, and \$2.4 billion of capital deployed in our mezzanine and rescue lending funds,
  - \$11.5 billion in our Real Estate segment primarily related to capital raised for BREP Europe IV (\$3.0 billion), BREP Asia (\$1.8 billion), BPP (\$0.9 billion), BXMT (\$780 million) and capital raised and/or invested for BREDS (\$3.1 billion),
  - \$6.8 billion in our Private Equity segment primarily due to fundraising related to Strategic Partners’ sixth fund as well as additional capital raised for our Tactical Opportunities investment vehicles, and
  - \$12.0 billion in our Hedge Fund Solutions segment mainly related to growth in its customized and commingled products and co-investment platform, additional closings on the general partner interests vehicle, and the launch of BAAM’s second alternative investment-focused mutual fund and first liquid alternative UCITS structure fund.
- Market appreciation of \$350.8 million principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment offset by \$1.5 billion in market depreciation for U.S. and European CLOs in the Credit segment.

Offsetting these increases were:

- Realizations of \$20.8 billion primarily driven by:
  - \$7.0 billion in our Credit segment primarily due to \$5.2 billion returned to CLO investors from CLOs that are post their reinvestment periods and \$1.8 billion returned across the Mezzanine and Rescue Lending funds,
  - \$4.7 billion in our Private Equity segment primarily resulting from \$3.3 billion return of capital from our BCP V fund including public share sales of Hilton, Pinnacle, and Nielsen and strategic sales in Apria, United Biscuits and Mivisa, and \$1.0 billion of fee earning realizations in Strategic Partners, and
  - \$8.7 billion in our Real Estate segment primarily due to realizations from BREP VI (\$2.7 billion), BREP V (\$1.0 billion), BREP Europe III (\$0.6 billion), co-invest (\$1.5 billion) and BREDS (\$2.5 billion).
- Outflows of \$10.7 billion primarily attributable to:
  - \$5.4 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners, and certain strategic shifts in their programs.
  - \$3.9 billion in our Credit segment primarily from our long-only platform, hedge fund strategies and business development companies.

BAAM had net inflows of \$1.3 billion from January 1 through February 1, 2015.

Fee-Earning Assets Under Management were \$198.0 billion at December 31, 2013, an increase of \$30.1 billion, or 18%, compared to \$167.9 billion at December 31, 2012. The net increase was due to:

- Inflows of \$48.2 billion related to:
  - \$15.4 billion in our Credit segment driven by \$4.8 billion raised in our business development companies (“BDCs”), \$3.9 billion raised in our other vehicles, \$3.7 billion raised in CLO launches, \$1.6 billion raised in Hedge Fund Strategies, and \$1.4 billion of capital deployed in our Mezzanine and Rescue Lending Funds,

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- \$13.8 billion in our Real Estate segment primarily related to \$5.5 billion raised for our fourth European fund, \$3.2 billion raised for our first Asian fund, \$1.6 billion of co-investment capital raised across our funds, \$1.3 billion for our second debt strategies fund and \$714.6 million in BXMT,
- \$9.9 billion in our Private Equity segment primarily due to \$7.0 billion related to the acquisition of Strategic Partners as well as \$2.7 billion in additional capital raised for our Tactical Opportunities investment vehicles, and
- \$9.1 billion in our Hedge Fund Solutions segment mainly related to growth in its customized products, the launch of BAAM's first alternative investment-focused mutual fund and growth in commingled products.
- Market appreciation of \$6.2 billion principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment as well as from the hedge fund strategies and business development companies in our Credit segment.

Offsetting these increases were:

- Realizations of \$16.9 billion primarily driven by:
  - \$8.9 billion in our Credit segment primarily due to \$6.9 billion returned to CLO investors from CLOs that are post their reinvestment periods and \$1.9 billion returned across the Mezzanine and Rescue Lending funds,
  - \$4.0 billion in our Private Equity segment primarily resulting from \$2.6 billion return of capital from our BCP V fund, including Nielsen (\$308.6 million), SeaWorld Parks & Entertainment (\$196.1 million), Pinnacle Foods (\$157.4 million), and \$744.3 million from our BCP IV fund including Vanguard (\$286.2 million), TDC (\$134.9 million) and TRW Automotive (\$119.4 million), and
  - \$3.6 billion in our Real Estate segment primarily due to \$2.1 billion of realizations in our BREDS funds, \$602.6 million in our BREP VI fund and \$460.3 million in our BREP V fund.
- Outflows of \$7.4 billion primarily attributable to:
  - \$3.6 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners,
  - \$2.1 billion in our Credit segment primarily from our long-only platform, and
  - \$1.3 billion in our Real Estate segment primarily due to the end of BREP Europe III's investment period and redemptions from the debt strategies hedge funds.

### *Total Assets Under Management*

Total Assets Under Management were \$290.4 billion at December 31, 2014, an increase of \$24.6 billion, or 9%, compared to \$265.8 billion at December 31, 2013. The net increase was due to:

- Inflows of \$56.9 billion primarily related to:
  - \$20.8 billion in our Credit segment due to the reasons noted above in Fee-Earning Assets Under Management,
  - \$11.1 billion in our Real Estate segment attributable to capital raised for BREP Europe IV (\$3.1 billion), BREP Asia (\$1.8 billion), BPP (\$2.3 billion), BXMT (\$780 million) and capital raised for BREDS (\$1.2 billion),
  - \$13.7 billion in our Private Equity segment due primarily to capital raised for Strategic Partners' sixth fund of funds, our second energy focused fund and additional capital raised for our Tactical Opportunities investment vehicles, and

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- \$11.4 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management.
- Market appreciation of \$24.5 billion due to:
  - \$11.7 billion in our Real Estate segment driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion),
  - \$10.7 billion in our Private Equity segment driven by significant returns in funds across the segment, primarily in BCP V and BCP VI, and
  - \$2.3 billion in our Hedge Fund Solutions segment driven by BAAM's Principal Solutions Composite up 7.0% gross.

Offsetting these increases were:

- Realizations of \$44.6 billion driven by:
  - \$20.4 billion in our Real Estate segment due to realizations from BREP VI (\$7.3 billion), BREP V (\$2.4 billion), BREP Europe III (\$1.4 billion), co-invest (\$3.6 billion), BREP VII (\$2.1 billion) and BREDS (\$2.0 billion).
  - \$15.4 billion in our Private Equity segment due to execution on monetization opportunities across our corporate private equity portfolio, and
  - \$8.4 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds,
- Outflows of \$12.2 billion primarily attributable to:
  - \$5.4 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners, and certain strategic shifts in their programs.
  - \$4.2 billion in our Credit segment primarily due to reasons noted above in Fee-Earning Assets Under Management.

Total Assets Under Management were \$265.8 billion at December 31, 2013, an increase of \$55.5 billion, or 26%, compared to \$210.2 billion at December 31, 2012. The net increase was due to:

- Inflows of \$60.3 billion primarily related to:
  - \$18.8 billion in our Credit segment due to the reasons noted above in Fee-Earning Assets Under Management in addition to \$2.1 billion of commitments to our Rescue Lending funds and \$728.9 million to our Mezzanine funds,
  - \$17.7 billion in our Real Estate segment attributable to multiple closings on our latest European, first Asia and second debt strategies funds, the completion of a secondary and convertible debt offering by BXMT and co-investment capital raised,
  - \$14.4 billion in our Private Equity segment due primarily to \$9.4 billion related to the acquisition of Strategic Partners, \$3.5 billion of additional capital raised for our Tactical Opportunities investment vehicles and \$687.7 million related to the first close on our next Strategic Partners fund, and
  - \$9.3 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management in addition to the \$1.1 billion initial close of our first permanent capital vehicle acquiring general partner interests in hedge funds.
- Market appreciation of \$33.2 billion due to:
  - \$14.4 billion in our Real Estate segment driven by successful initial public offerings of Hilton (\$5.5 billion), Extended Stay Hotels (\$697.0 million) and Brixmor (\$600.5 million), as well as valuation gains resulting from improving fundamentals of Equity Office Properties (\$1.0 billion) and Invitation Homes (\$911.7 million),

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- \$10.5 billion in our Private Equity segment driven by successful initial public offerings in our BCP V fund totaling \$3.7 billion (Hilton (\$2.0 billion), Pinnacle Foods (\$1.1 billion), SeaWorld Parks & Entertainment (\$536.4 million)) and in our BCP IV fund of \$1.0 billion (Merlin Entertainments); in total, public portfolio appreciation of 49.5% created \$6.6 billion of value,
- \$4.5 billion in our Hedge Fund Solutions segment driven by \$4.1 billion of appreciation in customized and commingled funds; BAAM's Principal Solutions Composite up 12.8% gross, and
- \$3.8 billion in our Credit segment primarily driven by \$1.5 billion of gains in Hedge Fund Strategies and BDCs as well as \$1.5 billion of appreciation in our carry funds.

Offsetting these increases were:

- Realizations of \$29.5 billion driven by:
  - \$11.2 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds,
  - \$9.6 billion in our Private Equity segment due to realization activity through public markets, strategic sales and credit markets,
  - \$8.3 billion in our Real Estate segment primarily due to realizations from various investments across the segment, primarily from our BREP funds (\$5.9 billion) and BREDS funds (\$1.4 billion).
- Outflows of \$8.4 billion primarily attributable to:
  - \$3.9 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners,
  - \$2.8 billion in our Credit segment primarily from our long-only platform, and
  - \$1.0 billion in our Real Estate segment primarily due to the termination of the investment period of certain BREDS drawdown funds and redemptions within the debt strategies hedge funds.



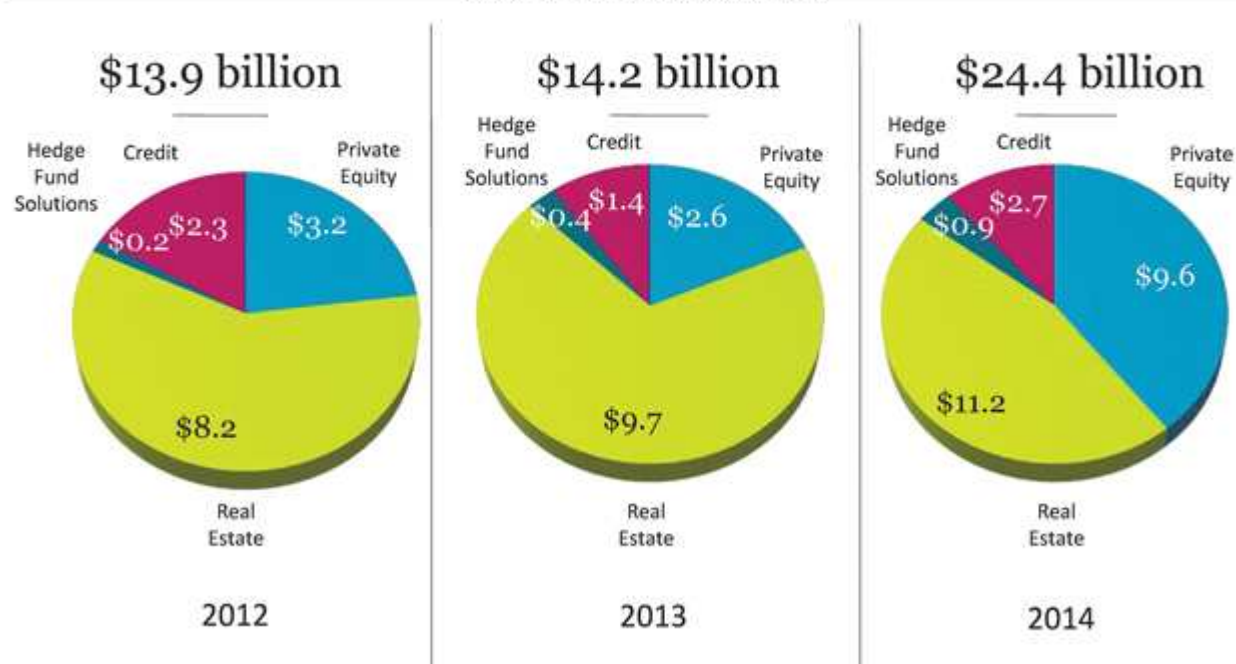
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### Limited Partner Capital Invested

The following presents the limited partner capital invested during the respective periods:

## Limited Partner Capital Invested

(Dollars in Billions, Except Title)



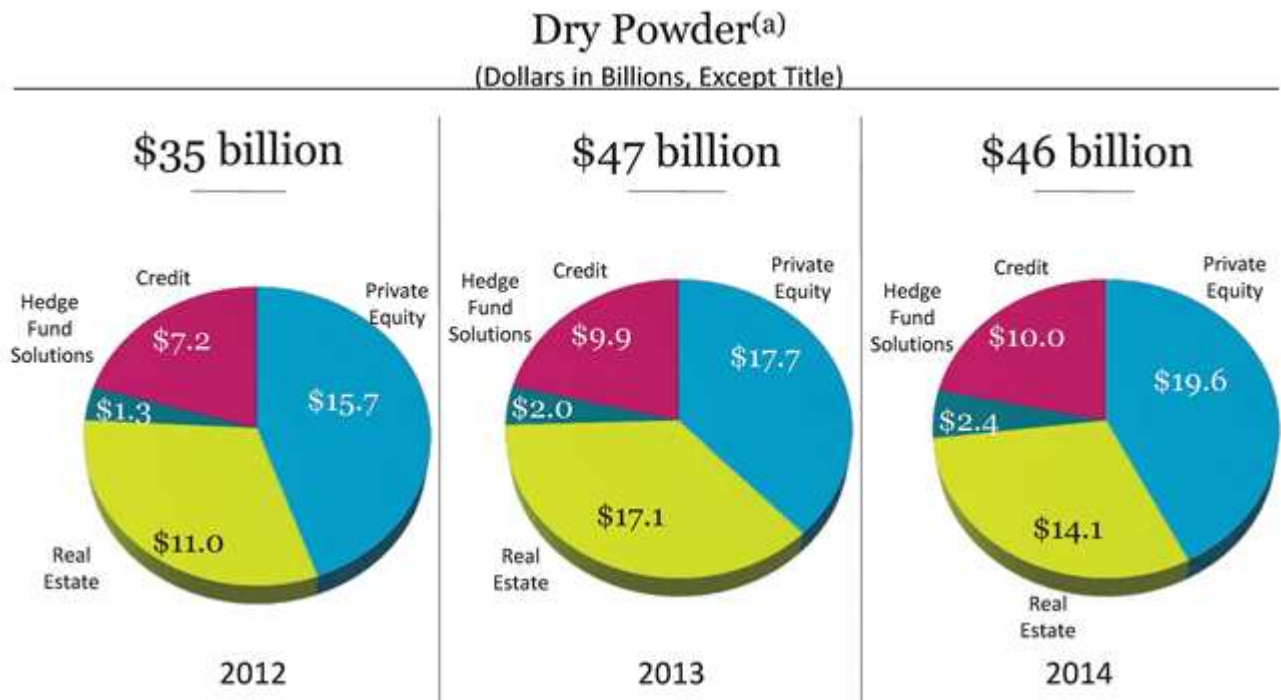
Note: Totals in graph may not add due to rounding.

	Year Ended December 31,			2013 vs. 2012		2014 vs. 2013	
	2012	2013	2014	\$	%	\$	%
Limited Partner Capital Invested							
Private Equity	\$ 3,223,535	\$ 2,568,582	\$ 9,623,273	\$ (654,953)	-20%	\$ 7,054,691	275%
Real Estate	8,218,175	9,741,277	11,235,142	1,523,102	19%	1,493,865	15%
Hedge Fund Solutions	200,841	431,275	854,128	230,434	115%	422,853	98%
Credit	2,256,420	1,438,570	2,656,958	(817,850)	-36%	1,218,388	85%
Total	<u>\$13,898,971</u>	<u>\$14,179,704</u>	<u>\$24,369,501</u>	<u>\$ 280,733</u>	<u>2%</u>	<u>\$10,189,797</u>	<u>72%</u>

Limited Partner Capital Invested was \$24.4 billion for the year ended December 31, 2014, an increase of \$10.2 billion, or 72%, from \$14.2 billion for the year ended December 31, 2013. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed significantly greater capital in 2014 than in 2013 as we found strong opportunities that fit within our core investment philosophy for our corporate private equity funds as well as increased capital deployment opportunities within our Tactical Opportunities and Strategic Partners businesses. Our Real Estate segment deployed \$11.2 billion of capital in 2014, a 15% increase from 2013 as investments outside of the U.S. comprised 62% of total investments up from 44% in 2013. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the year ended December 31, 2014 was higher compared to the year ended December 31, 2013 primarily due to a greater number of investment opportunities in our carry funds that fit within our investment philosophy.

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The following presents the committed undrawn capital available for investment (“dry powder”) as of December 31, 2014, 2013 and 2012:



Note: Totals may not add due to rounding. Amounts are as of December 31 of each year.

(a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.

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### Net Accrued Performance Fees

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2014 and 2013. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 18. “Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.

	December 31,	
	2014	2013
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 282	\$ 424
BCP V Carried Interest	1,050	26
BCP VI Carried Interest	233	108
BEP Carried Interest	63	65
Tactical Opportunities Carried Interest	24	8
Strategic Partners V Carried Interest	4	1
Korea Carried Interest	1	—
Total Private Equity (a)	<u>1,657</u>	<u>632</u>
<b>Real Estate</b>		
BREP IV Carried Interest	18	—
BREP V Carried Interest	602	603
BREP VI Carried Interest	1,113	1,264
BREP VII Carried Interest	605	293
BREP International I Carried Interest	—	2
BREP Europe III Carried Interest	183	155
BREP Europe IV Carried Interest	37	—
BREP Asia Carried Interest	17	4
BPP* Carried Interest	14	—
BREDS Carried Interest	14	12
BREDS Incentive Fees	2	4
Asia Platform Incentive Fees	7	10
Total Real Estate (a)	<u>2,612</u>	<u>2,347</u>
<b>Hedge Fund Solutions</b>		
Incentive Fees	76	144
Total Hedge Fund Solutions	<u>76</u>	<u>144</u>
<b>Credit</b>		
Carried Interest	175	173
Incentive Fees	32	104
Total Credit	<u>207</u>	<u>277</u>
<b>Total Blackstone</b>		
Carried Interest	4,435	3,138
Incentive Fees	117	262
Net Accrued Performance Fees	<u>\$4,552</u>	<u>\$3,400</u>

\* Previously reported as Core+.

(a) Private Equity and Real Estate include Co-Investments.

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### *Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:



Note: Totals may not add due to rounding. Amounts are as of December 31.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

### *Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2014:

Fund (Investment Period)	Committed		Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
	Capital	Available Capital (a)	Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$ —	\$ —	N/A	—	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100	—	—	N/A	—	3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422	—	—	N/A	—	9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	247,105	1.2x	—	2,619,040	1.4x	2,866,145	1.3x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	225,775	3,167,450	1.7x	51%	18,005,120	3.2x	21,172,570	2.8x	45%	36%
BCP V (Dec 2005 / Jan 2011)	21,032,374	1,267,725	18,119,940	1.7x	55%	17,472,685	1.8x	35,592,625	1.8x	11%	8%
BCP VI (Jan 2011 / Jan 2017)	15,178,376	6,553,978	10,597,000	1.3x	17%	1,473,840	1.8x	12,070,840	1.4x	48%	15%
BEP (Aug 2011 / Aug 2017)	2,426,176	732,659	2,329,663	1.4x	30%	533,002	2.0x	2,862,665	1.5x	55%	34%
BEP II (TBD)	4,500,000	4,500,000	—	N/A	—	—	N/A	—	N/A	N/A	N/A
Total Corporate Private Equity	58,234,997	13,479,435	34,461,158	1.5x	41%	54,286,932	2.2x	88,748,090	1.9x	22%	16%
Tactical Opportunities	6,554,659	3,270,974	3,761,107	1.1x	3%	676,885	1.4x	4,437,992	1.1x	30%	15%
Strategic Partners	16,593,144	5,096,371	6,319,537	1.8x	N/A	11,504,389	1.4x	17,823,926	1.5x	N/A	15%
Other Funds and Co-Invest (d)	1,787,472	447,796	832,486	0.8x	49%	84,054	1.8x	916,540	0.9x	N/A	N/A
Total Private Equity	83,170,272	22,294,576	45,374,288	1.5x	32%	66,552,260	2.0x	111,926,548	1.8x	20%	16%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$ —	\$ —	N/A	N/A	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	—	—	N/A	N/A	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	—	—	N/A	N/A	2,531,612	2.1x	2,531,612	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	—	—	N/A	N/A	3,328,504	2.4x	3,328,504	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	—	1,313,362	1.0x	24%	3,322,039	2.3x	4,635,401	1.7x	57%	14%
BREP V (Dec 2005 / Feb 2007)	5,539,418	—	6,220,311	2.1x	16%	5,879,814	2.1x	12,100,125	2.1x	16%	11%
BREP VI (Feb 2007 / Aug 2011)	11,059,495	586,397	15,444,660	2.3x	48%	10,016,132	2.3x	25,460,792	2.3x	16%	14%
BREP VII (Aug 2011 / Feb 2017)	13,467,015	3,224,238	17,079,584	1.6x	2%	2,324,240	1.6x	19,403,824	1.6x	36%	27%
Total Global Real Estate Funds	35,507,091	3,810,635	40,057,917	1.8x	23%	29,075,239	2.2x	69,133,156	2.0x	24%	18%
<b>Euro</b>											
BREP Int'l I (Jan 2001 / Sep 2005)	€ 824,172	€ —	€ 125,722	1.5x	92%	€ 1,250,606	2.2x	€ 1,376,328	2.1x	25%	23%
BREP Int'l II (Sep 2005 / Jun 2008)	1,629,748	52,437	1,466,176	1.3x	36%	567,022	1.8x	2,033,198	1.5x	12%	4%
BREP Europe III (Jun 2008 / Sep 2013)	3,204,714	511,596	4,037,370	1.7x	7%	1,136,487	2.4x	5,173,857	1.8x	32%	20%
BREP Europe IV (Sep 2013 / Mar 2019)	6,504,848	4,321,605	2,852,176	1.1x	—	247,017	1.3x	3,099,193	1.2x	40%	19%
Total Euro Real Estate Funds	€12,163,482	€ 4,885,638	€ 8,481,444	1.4x	11%	€ 3,201,132	2.1x	€ 11,682,576	1.5x	23%	13%
BREP Co-Investment (e)	\$ 5,546,294	\$ —	\$ 8,138,959	1.9x	61%	\$ 3,125,556	2.3x	\$ 11,264,515	2.0x	14%	17%
BREP Asia (Jun 2013 / Dec 2017)	5,072,903	3,334,671	2,042,699	1.1x	—	4,400	1.0x	2,047,099	1.1x	N/A	14%
Total Real Estate	\$61,994,079	\$13,055,951	\$61,533,703	1.7x	24%	\$36,462,326	2.2x	\$ 97,996,029	1.9x	23%	17%
BPP*	\$ 3,477,888	\$ 1,585,560	\$ 2,227,949	1.2x	—	\$ —	N/A	\$ 2,227,949	1.2x	N/A	N/A
BREDS (f)	\$ 6,745,544	\$ 1,668,642	\$ 2,854,216	1.2x	—	\$ 3,664,923	1.3x	\$ 6,519,139	1.3x	14%	12%
<b>Credit (g)</b>											
Mezzanine I (Jul 2007 / Jul 2012)	\$ 2,000,000	\$ 139,685	\$ 820,393	1.7x	—	\$ 3,999,452	1.6x	\$ 4,819,845	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,304,528	2,368,630	1.2x	—	1,216,870	1.5x	3,585,500	1.3x	N/A	24%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	493,489	2,667,696	1.5x	—	3,165,504	1.4x	5,833,200	1.4x	N/A	15%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	3,827,459	1,616,850	1.2x	—	3,795	1.0x	1,620,645	1.2x	N/A	N/M
Total Credit	\$14,498,143	\$ 6,765,161	\$ 7,473,569	1.3x	—	\$ 8,385,621	1.5x	\$ 15,859,190	1.4x		

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N/M Not meaningful.

N/A Not applicable.

\* Previously reported as Core+.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital (“MOIC”) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return (“IRR”) represents the annualized inception to December 31, 2014 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment’s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) Excludes Capital Trust drawdown funds.
- (g) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.7x, 1.6x and 1.4x, respectively. Funds presented represent flagship credit drawdown funds only.

### Segment Analysis

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to “our” sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

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### Private Equity

The following table presents the results of operations for our Private Equity segment:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 415,841	\$ 368,146	\$348,594	\$ 47,695	13%	\$ 19,552	6%
Transaction and Other Fees, Net	134,642	96,988	100,080	37,654	39%	(3,092)	-3%
Management Fee Offsets	(19,146)	(5,683)	(5,926)	(13,463)	-237%	243	4%
Total Management Fees, Net	<u>531,337</u>	<u>459,451</u>	<u>442,748</u>	<u>71,886</u>	<u>16%</u>	<u>16,703</u>	<u>4%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	754,402	329,993	109,797	424,409	129%	220,196	201%
<b>Unrealized</b>							
Carried Interest	<u>1,222,828</u>	<u>398,232</u>	<u>148,381</u>	<u>824,596</u>	<u>207%</u>	<u>249,851</u>	<u>168%</u>
Total Performance Fees	<u>1,977,230</u>	<u>728,225</u>	<u>258,178</u>	<u>1,249,005</u>	<u>172%</u>	<u>470,047</u>	<u>182%</u>
<b>Investment Income (Loss)</b>							
Realized	202,719	88,026	25,823	114,693	130%	62,203	241%
Unrealized	(23,914)	161,749	85,337	(185,663)	N/M	76,412	90%
Total Investment Income	178,805	249,775	111,160	(70,970)	-28%	138,615	125%
Interest and Dividend Revenue	21,983	15,602	13,556	6,381	41%	2,046	15%
Other	6,569	4,259	2,417	2,310	54%	1,842	76%
Total Revenues	<u>2,715,924</u>	<u>1,457,312</u>	<u>828,059</u>	<u>1,258,612</u>	<u>86%</u>	<u>629,253</u>	<u>76%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	276,447	236,120	222,709	40,327	17%	13,411	6%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	266,393	38,953	3,679	227,440	584%	35,274	959%
<b>Unrealized</b>							
Carried Interest	<u>210,446</u>	<u>342,733</u>	<u>58,555</u>	<u>(132,287)</u>	<u>-39%</u>	<u>284,178</u>	<u>485%</u>
Total Compensation and Benefits	753,286	617,806	284,943	135,480	22%	332,863	117%
Other Operating Expenses	142,898	124,137	130,845	18,761	15%	(6,708)	-5%
Total Expenses	<u>896,184</u>	<u>741,943</u>	<u>415,788</u>	<u>154,241</u>	<u>21%</u>	<u>326,155</u>	<u>78%</u>
Economic Income	<u>\$1,819,740</u>	<u>\$ 715,369</u>	<u>\$412,271</u>	<u>\$1,104,371</u>	<u>154%</u>	<u>\$303,098</u>	<u>74%</u>

N/M Not meaningful.

### Revenues

Revenues were \$2.7 billion for the year ended December 31, 2014, an increase of \$1.3 billion compared to \$1.5 billion for the year ended December 31, 2013. The increase in revenues was attributable to increases in Performance Fees and Total Management Fees, Net of \$1.2 billion and \$71.9 million, respectively, partially offset by a decrease in Investment Income of \$71.0 million.

Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, an increase of \$1.2 billion, compared to \$728.2 million for the year ended December 31, 2013,

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principally due to the performance in our BCP V and BCP VI funds, which generated net returns of 24% and 18%, respectively with BCP V crossing its preferred return threshold during the period. The returns in these funds were driven by both the private and public portfolios, from strong operating performance across the portfolio as well as the initial public offerings for Michaels Stores, Catalent and Vivint's solar business.

Total Management Fees were \$531.3 million for the year ended December 31, 2014, an increase of \$71.9 million compared to \$459.5 million for the year ended December 31, 2013, driven primarily by increases in Base Management Fees and Transaction and Other Fees. Net Base Management Fees were \$415.8 million for the year ended December 31, 2014, an increase of \$47.7 million compared to \$368.1 million for the year ended December 31, 2013, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles and Strategic Partners secondary private fund of funds business as well as the inclusion of the Strategic Partners management fees for the full year. Transaction and Other Fees were \$134.6 million for the year ended December 31, 2014, an increase of \$37.7 million compared to \$97.0 million for the year ended December 31, 2013, primarily due to fees earned related to transaction closings.

Investment Income was \$178.8 million for the year ended December 31, 2014, a decrease of \$71.0 million, compared to \$249.8 million for the year ended December 31, 2013, primarily due to our BCP V and BEP funds which generated strong net returns of 24% and 12%, respectively, for the year, but were slightly lower than the returns generated in the full year 2013.

Revenues were \$1.5 billion for the year ended December 31, 2013, an increase of \$629.3 million compared to \$828.1 million for the year ended December 31, 2012. The increase in revenues was attributable to increases in Performance Fees, Investment Income and Total Management Fees of \$470.0 million, \$138.6 million and \$16.7 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$728.2 million for the year ended December 31, 2013, an increase of \$470.0 million, compared to \$258.2 million for the year ended December 31, 2012, principally due to performance in our BCP IV, BEP and BCP VI funds, which had net returns of 23%, 36% and 12%, respectively. A significant portion of the performance fees were realized, with activity that included secondary sales from our publicly traded portfolio in TRW, Team Health, Merlin Entertainments, TDC and Kosmos and strategic dispositions of certain portfolio companies including Vanguard Healthcare, Alta Energy and Knight Capital.

Investment Income was \$249.8 million for the year ended December 31, 2013, an increase of \$138.6 million, compared to \$111.2 million for the year ended December 31, 2012, driven by returns across all of our significant funds. The portfolio benefited from strong performance of our public holdings through the year, including the successful initial public offerings of Pinnacle Foods, SeaWorld Parks & Entertainment, Merlin Entertainments and Hilton, while our private portfolio benefited from investments in the healthcare, industrial and retail/consumer sectors.

Total Management Fees were \$459.5 million for the year ended December 31, 2013, an increase of \$16.7 million compared to \$442.7 million for the year ended December 31, 2012, driven primarily by an increase in Base Management Fees. Base Management Fees were \$368.1 million for the year ended December 31, 2013, an increase of \$19.6 million compared to \$348.6 million for the year ended December 31, 2012, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles as well as the addition of the Strategic Partners secondary private fund of funds business.

### *Expenses*

Expenses were \$896.2 million for the year ended December 31, 2014, an increase of \$154.2 million, compared to \$741.9 million for the year ended December 31, 2013. The increase was primarily attributable to increases of \$95.2 million in Performance Fee Compensation, \$40.3 million in Compensation, and \$18.8 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees



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Revenue. Compensation increased primarily due to an increase in revenue on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest allocated to the segment.

Expenses were \$741.9 million for the year ended December 31, 2013, an increase of \$326.2 million, compared to \$415.8 million for the year ended December 31, 2012. The increase was primarily attributable to increases of \$319.5 million in Performance Fee Compensation and \$13.4 million in Compensation. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to the addition of the Strategic Partners secondary private fund of funds business and the growth of our Tactical Opportunities business.

### Fund Returns

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (b)	Year Ended December 31,						December 31, 2014 Inception to Date			
	2014		2013 (a)		2012 (a)		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	-4%	-2%	27%	23%	17%	16%	60%	45%	50%	36%
BCP V	35%	24%	38%	35%	12%	11%	12%	11%	10%	8%
BCP VI	24%	18%	23%	13%	23%	26%	65%	48%	24%	15%
BEP	15%	12%	51%	36%	62%	90%	60%	55%	42%	34%
Tactical Opportunities (c)	20%	15%	20%	13%	N/M	N/M	38%	30%	20%	15%
Strategic Partners	24%	20%	8%	6%	N/A	N/A	N/A	N/A	18%	15%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective fund's general and limited partners.
- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- 2012 returns for Tactical Opportunities are not meaningful as a material portion of the funds' capital had not been invested.

The corporate private equity funds within the Private Equity segment have three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of December 31, 2014, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V "main fund" and BCP V-AC fund. Within these fund classes, the general partner ("GP") is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

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### Real Estate

The following table presents the results of operations for our Real Estate segment:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 628,502	\$ 565,182	\$ 551,322	\$ 63,320	11%	\$ 13,860	3%
Transaction and Other Fees, Net	91,610	79,675	85,681	11,935	15%	(6,006)	-7%
Management Fee Offsets	(34,443)	(22,821)	(28,609)	(11,622)	-51%	5,788	20%
Total Management Fees, Net	<u>685,669</u>	<u>622,036</u>	<u>608,394</u>	<u>63,633</u>	<u>10%</u>	<u>13,642</u>	<u>2%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	1,487,762	486,773	165,114	1,000,989	206%	321,659	195%
Incentive Fees	11,499	45,862	25,656	(34,363)	-75%	20,206	79%
<b>Unrealized</b>							
Carried Interest	524,046	1,651,700	683,764	(1,127,654)	-68%	967,936	142%
Incentive Fees	(5,521)	(28,753)	(119)	23,232	81%	(28,634)	N/M
Total Performance Fees	<u>2,017,786</u>	<u>2,155,582</u>	<u>874,415</u>	<u>(137,796)</u>	<u>-6%</u>	<u>1,281,167</u>	<u>147%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	309,095	52,359	45,302	256,736	490%	7,057	16%
<b>Unrealized</b>							
Carried Interest	(58,930)	350,201	90,875	(409,131)	N/M	259,326	285%
Total Investment Income	<u>250,165</u>	<u>402,560</u>	<u>136,177</u>	<u>(152,395)</u>	<u>-38%</u>	<u>266,383</u>	<u>196%</u>
Interest and Dividend Revenue	30,197	21,563	14,448	8,634	40%	7,115	49%
Other	2,863	3,384	894	(521)	-15%	2,490	279%
Total Revenues	<u>2,986,680</u>	<u>3,205,125</u>	<u>1,634,328</u>	<u>(218,445)</u>	<u>-7%</u>	<u>1,570,797</u>	<u>96%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	326,317	294,222	271,122	32,095	11%	23,100	9%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	432,996	148,837	62,418	284,159	191%	86,419	138%
Incentive Fees	5,980	23,878	13,060	(17,898)	-75%	10,818	83%
<b>Unrealized</b>							
Carried Interest	197,174	566,837	165,482	(369,663)	-65%	401,355	243%
Incentive Fees	(2,751)	(15,015)	(583)	12,264	82%	(14,432)	N/M
Total Compensation and Benefits	<u>959,716</u>	<u>1,018,759</u>	<u>511,499</u>	<u>(59,043)</u>	<u>-6%</u>	<u>507,260</u>	<u>99%</u>
Other Operating Expenses	<u>146,083</u>	<u>116,391</u>	<u>123,714</u>	<u>29,692</u>	<u>26%</u>	<u>(7,323)</u>	<u>-6%</u>
Total Expenses	<u>1,105,799</u>	<u>1,135,150</u>	<u>635,213</u>	<u>(29,351)</u>	<u>-3%</u>	<u>499,937</u>	<u>79%</u>
Economic Income	<u>\$1,880,881</u>	<u>\$2,069,975</u>	<u>\$ 999,115</u>	<u>\$ (189,094)</u>	<u>-9%</u>	<u>\$1,070,860</u>	<u>107%</u>

N/M Not meaningful.

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### *Revenues*

Revenues were \$3.0 billion for the year ended December 31, 2014, a decrease of \$218.4 million compared to \$3.2 billion for the year ended December 31, 2013. The decrease in revenues was primarily attributable to decreases in Investment Income and Performance Fees of \$152.4 million and \$137.8 million, respectively, partially offset by an increase in Total Management Fees, Net of \$63.6 million.

Investment Income was \$250.2 million for the year ended December 31, 2014, a decrease of \$152.4 million compared to \$402.6 million for the year ended December 31, 2013. The decrease in Investment Income was due to a year over year decrease in the net appreciation of investments in our BREP VI fund. Blackstone has a larger investment in BREP VI than in other BREP funds.

Performance Fees, which are determined on a fund by fund basis, were \$2.0 billion for the year ended December 31, 2014, a decrease of \$137.8 million compared to \$2.2 billion for the year ended December 31, 2013. Performance Fees decreased by \$137.8 million due to a year over year decrease in the net appreciation of investments in our BREP carry funds from 31.3% to 20.9%. For the year ended December 31, 2014, the increase in carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments was driven by sustained strong operating fundamentals in the private portfolio (23.2%, \$8.8 billion) and public portfolio appreciation (17.0%, \$3.7 billion). Our BREDS drawdown and real estate hedge funds appreciated 7.2% and 5.3%, respectively.

Total Management Fees, Net were \$685.7 million for the year ended December 31, 2014, an increase of \$63.6 million compared to \$622.0 million for the year ended December 31, 2013, primarily attributable to increases in Base Management Fees. Base Management Fees were \$628.5 million for the year ended December 31, 2014, an increase of \$63.3 million compared to \$565.2 million for the year ended December 31, 2013. The increase was principally due to fees generated from fundraising within BREP Europe IV, BREP Asia, BPP and invested capital within BREDS, partially offset by the expiration of BREP V and realizations across the portfolio.

Revenues were \$3.2 billion for the year ended December 31, 2013, an increase of \$1.6 billion compared to \$1.6 billion for the year ended December 31, 2012. The increase in revenues was primarily attributable to an increase of \$1.3 billion in Performance Fees and a \$266.4 million increase in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$2.2 billion for the year ended December 31, 2013, an increase of \$1.3 billion compared to \$874.4 million for the year ended December 31, 2012. Performance Fees increased due to the strong performance of our BREP carry funds and were primarily driven by valuation gains on investments within our BREP VI and BREP VII funds. The valuation gains were driven by the successful initial public offerings of Hilton, Extended Stay and Brixmor as well as gains resulting from improving fundamentals of Equity Office and Invitation Homes. For the year ended December 31, 2013, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 31.3%. Our BREDS drawdown and real estate hedge funds appreciated 10.4% and 15.6%, respectively.

Investment Income was \$402.6 million for the year ended December 31, 2013, an increase of \$266.4 million compared to \$136.2 million for the year ended December 31, 2012. The increase in Investment Income was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

### *Expenses*

Expenses were \$1.1 billion for the year ended December 31, 2014, a decrease of \$29.4 million, compared to \$1.1 billion for the year ended December 31, 2013. The decrease was primarily attributable to a decrease of Performance Fee Compensation of \$91.1 million, partially offset by increases in Compensation and Other Operating Expenses of \$32.1 million and \$29.7 million, respectively. The decrease in Performance Fee Compensation is the

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result of a decrease in Performance Fees Revenue. The increase in Compensation is due to an overall increase in Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment as well as increases in business development and professional fees.

Expenses were \$1.1 billion for the year ended December 31, 2013, an increase of \$499.9 million, compared to \$635.2 million for the year ended December 31, 2012. The increase was primarily attributable to an increase in Performance Fee Compensation of \$484.2 million as a result of an increase in Performance Fees Revenue and an increase in Compensation of \$23.1 million primarily due to the acquisition of BXMT and the growth of our real estate business.

### Fund Returns

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2014 Inception to Date			
	2014		2013		2012		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP International (b)	92%	73%	0%	0%	30%	21%	35%	25%	33%	23%
BREP IV	12%	9%	28%	21%	5%	2%	87%	57%	24%	14%
BREP V	25%	21%	19%	15%	17%	13%	21%	16%	15%	11%
BREP International II (b)	27%	25%	32%	30%	-2%	-4%	13%	12%	6%	4%
BREP VI	20%	17%	43%	35%	15%	11%	19%	16%	19%	14%
BREP Europe III (b)	32%	25%	23%	17%	19%	12%	43%	32%	31%	20%
BREP VII	33%	25%	41%	29%	51%	32%	52%	36%	39%	27%
BREP Asia	19%	10%	N/M	N/M	N/A	N/A	N/A	N/A	25%	14%
BREP Europe IV (b)	32%	20%	N/M	N/M	N/A	N/A	64%	40%	32%	19%
BREDS	15%	10%	15%	11%	20%	15%	18%	14%	16%	12%
BSSF I	14%	10%	14%	10%	23%	18%	N/A	N/A	15%	11%
CMBS	9%	6%	11%	7%	19%	14%	N/A	N/A	16%	11%
BREP Co-Investment (c)	24%	22%	43%	39%	15%	13%	17%	14%	19%	17%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based net internal rates of return.
- (c) Excludes fully realized co-investments prior to Blackstone's initial public offering.

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The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2014:

<u>Fully Invested Funds</u>	<u>Gain to Cross Carried Interest Threshold (a)</u>		
	<u>Amount</u>	<u>% Change in Total Enterprise Value (b)</u> (Amounts in Millions)	<u>% Change in Equity Value</u>
BREP Int'l II (Sep 2005 / Jun 2008)	€ 779	20%	59%

(a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.

(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has six funds in their investment period, which were above their respective Carried Interest thresholds as of December 31, 2014: BREP VII, BREP Asia, BREP Europe IV and three funds within BREDS II.

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### Hedge Fund Solutions

The following table presents the results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$482,981	\$409,321	\$346,210	\$ 73,660	18%	\$ 63,111	18%
Transaction and Other Fees, Net	569	623	188	(54)	-9%	435	231%
Management Fee Offsets	(5,014)	(3,387)	(1,414)	(1,627)	-48%	(1,973)	-140%
Total Management Fees, Net	<u>478,536</u>	<u>406,557</u>	<u>344,984</u>	<u>71,979</u>	<u>18%</u>	<u>61,573</u>	<u>18%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Incentive Fees	140,529	207,735	83,433	(67,206)	-32%	124,302	149%
<b>Unrealized</b>							
Incentive Fees	(879)	7,718	9,042	(8,597)	N/M	(1,324)	-15%
Total Performance Fees	<u>139,650</u>	<u>215,453</u>	<u>92,475</u>	<u>(75,803)</u>	<u>-35%</u>	<u>122,978</u>	<u>133%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
	21,550	27,613	7,270	(6,063)	-22%	20,343	280%
<b>Unrealized</b>							
	<u>5,132</u>	<u>(9,306)</u>	<u>8,517</u>	<u>14,438</u>	<u>N/M</u>	<u>(17,823)</u>	<u>N/M</u>
Total Investment Income	26,682	18,307	15,787	8,375	46%	2,520	16%
Interest and Dividend Revenue	11,114	7,605	2,139	3,509	46%	5,466	256%
Other	1,855	688	3,816	1,167	170%	(3,128)	-82%
Total Revenues	<u>657,837</u>	<u>648,610</u>	<u>459,201</u>	<u>9,227</u>	<u>1%</u>	<u>189,409</u>	<u>41%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	131,658	136,470	119,731	(4,812)	-4%	16,739	14%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Incentive Fees	42,451	65,793	23,080	(23,342)	-35%	42,713	185%
<b>Unrealized</b>							
Incentive Fees	(273)	2,856	1,317	(3,129)	N/M	1,539	117%
Total Compensation and Benefits	173,836	205,119	144,128	(31,283)	-15%	60,991	42%
Other Operating Expenses	86,129	66,966	57,809	19,163	29%	9,157	16%
Total Expenses	<u>259,965</u>	<u>272,085</u>	<u>201,937</u>	<u>(12,120)</u>	<u>-4%</u>	<u>70,148</u>	<u>35%</u>
Economic Income	<u>\$397,872</u>	<u>\$376,525</u>	<u>\$257,264</u>	<u>\$ 21,347</u>	<u>6%</u>	<u>\$119,261</u>	<u>46%</u>

N/M Not meaningful.

### Revenues

Revenues were \$657.8 million for the year ended December 31, 2014, an increase of \$9.2 million compared to \$648.6 million for the year ended December 31, 2013. The increase in revenues was primarily attributable to increases in Total Management Fees, Net and Investment Income of \$72.0 million and \$8.4 million, respectively, partially offset by a decrease in Performance Fees of \$75.8 million.

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Total Management Fees, Net were \$478.5 million for the year ended December 31, 2014, an increase of \$72.0 million compared to \$406.6 million for the year ended December 31, 2013, primarily due to an increase in Base Management Fees. Base Management Fees were \$483.0 million for the year ended December 31, 2014, an increase of \$73.7 million compared to \$409.3 million for the year ended December 31, 2013. This was driven by an increase in Fee-Earning Assets Under Management of 16% from the prior year, which was from net inflows and market appreciation.

Investment Income was \$26.7 million for the year ended December 31, 2014, an increase of \$8.4 million compared to \$18.3 million for the year ended December 31, 2013. The increase in Investment Income was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$139.7 million for the year ended December 31, 2014, a decrease of \$75.8 million compared to \$215.5 million for the year ended December 31, 2013. This was primarily due to lower returns. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 5.9% during the year ended December 31, 2014.

Revenues were \$648.6 million for the year ended December 31, 2013, an increase of \$189.4 million compared to \$459.2 million for the year ended December 31, 2012. The increase in revenues was primarily attributable to an increase of \$123.0 million in Performance Fees and an increase of \$61.6 million in Total Management Fees.

Performance Fees were \$215.5 million for the year ended December 31, 2013, an increase of \$123.0 million compared to \$92.5 million for the year ended December 31, 2012. This was primarily due to an increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle, and therefore eligible for performance fees. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 11.4% during the year ended December 31, 2013.

Total Management Fees were \$406.6 million for the year ended December 31, 2013, an increase of \$61.6 million compared to \$345.0 million for the year ended December 31, 2012, primarily due to an increase in Base Management Fees. Base Management Fees were \$409.3 million for the year ended December 31, 2013, an increase of \$63.1 million compared to \$346.2 million for the year ended December 31, 2012. This was driven by an increase in Fee-Earning Assets Under Management of 22% from the prior year, which was from net inflows and market appreciation.

### *Expenses*

Expenses were \$260.0 million for the year ended December 31, 2014, a decrease of \$12.1 million compared to the year ended December 31, 2013. The decrease was primarily attributable to a \$26.5 million decrease in Performance Fee Compensation and a \$4.8 million decrease in Compensation, partially offset by a \$19.2 million increase in Other Operating Expenses. Performance Fee Compensation was \$42.2 million for the year ended December 31, 2014, a decrease of \$26.5 million compared to \$68.6 million for the year ended December 31, 2013 due to the decrease in Performance Fees Revenue. Compensation was \$131.7 million for the year ended December 31, 2014, a decrease of \$4.8 million compared to \$136.5 million for the prior year, due to a change in the terms of Deferred Compensation Plan awards which more than offset the increase in Management Fees. Other Operating Expenses were \$86.1 million for the year ended December 31, 2014, an increase of \$19.2 million compared to \$67.0 million for the year ended December 31, 2013, primarily resulting from an increase in interest expense allocated to the segment as well as an increase in professional fees.

Expenses were \$272.1 million for the year ended December 31, 2013, an increase of \$70.1 million compared to the year ended December 31, 2012. The increase was attributable to a \$44.3 million increase in Performance Fee Compensation, a \$16.7 million increase in Compensation and a \$9.2 million increase in Other Operating Expenses. Performance Fee Compensation was \$68.6 million for the year ended December 31, 2013, an increase of \$44.3 million compared to \$24.4 million for the year ended December 31, 2012 due to the increase in Performance Fees Revenue. Compensation was \$136.5 million for the year ended December 31, 2013, an increase of

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\$16.7 million compared to \$119.7 million for the prior year, as a portion of it was related to the segment's results, exclusive of Performance Fees and Investment Income. Other Operating Expenses were \$67.0 million for the year ended December 31, 2013, an increase of \$9.2 million compared to \$57.8 million for the year ended December 31, 2012, primarily resulting from an increase in interest expense allocated to the segment.

### Operating Metrics

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

## Incentive Fee-Earning Assets Under Management

(Dollars in Billions)



	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark and/or Hurdle (a)		
	December 31,			December 31,		
	2012	2013	2014	2012	2013	2014
BAAM Managed Funds (b)	\$23,790,415	\$28,640,505	\$34,732,386	78%	97%	94%

Note: Totals in graph may not add due to rounding.

- (a) Estimated % Above High Water Mark and/or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and/or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at December 31, 2014 the incremental appreciation needed for the 6% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was \$57.7 million, an increase of \$3.5 million, or 6.5%, compared to \$54.2 million at December 31, 2013. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of December 31, 2014, 94% were within 5% of reaching their respective High Water Mark and/or Hurdle.

### Composite Returns

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also



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not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

Composite	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2014							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	7%	6%	10%	9%	8%	6%	8%	7%

### The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions Composite, formerly known as BAAM's Core Funds Composite, covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's individual investor solutions (i.e., liquid alternatives), long-only equity, long-biased commodities, ventures (i.e., seeding and minority interests) and strategic opportunities (i.e., co-investments) platforms except where a BPS fund invests directly into those platforms. BAAM's advisory platforms and liquidating funds are also excluded. On a net of fees basis, the BPS Composite was up 0.5% for the quarter and 5.9% for the full year.

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### Credit

The following table presents the results of operations for our Credit segment:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$460,205	\$398,158	\$345,277	\$ 62,047	16%	\$ 52,881	15%
Transaction and Other Fees, Net	18,161	28,586	40,875	(10,425)	-36%	(12,289)	-30%
Management Fee Offsets	(28,168)	(40,329)	(5,004)	12,161	30%	(35,325)	-706%
Total Management Fees, Net	<u>450,198</u>	<u>386,415</u>	<u>381,148</u>	<u>63,783</u>	<u>17%</u>	<u>5,267</u>	<u>1%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	208,432	127,192	52,511	81,240	64%	74,681	142%
Incentive Fees	109,717	220,736	192,375	(111,019)	-50%	28,361	15%
<b>Unrealized</b>							
Carried Interest	(37,913)	108,078	162,045	(145,991)	N/M	(53,967)	-33%
Incentive Fees	(23,025)	1,107	(38,234)	(24,132)	N/M	39,341	N/M
Total Performance Fees	<u>257,211</u>	<u>457,113</u>	<u>368,697</u>	<u>(199,902)</u>	<u>-44%</u>	<u>88,416</u>	<u>24%</u>
<b>Investment Income</b>							
<b>Realized</b>							
Unrealized	9,354	4,098	15,611	5,256	128%	(11,513)	-74%
Total Investment Income	<u>5,055</u>	<u>13,951</u>	<u>4,769</u>	<u>(8,896)</u>	<u>-64%</u>	<u>9,182</u>	<u>193%</u>
Interest and Dividend Revenue	14,409	18,049	20,380	(3,640)	-20%	(2,331)	-11%
Other	23,040	18,146	9,330	4,894	27%	8,816	94%
	(2,310)	527	(1,174)	(2,837)	N/M	1,701	N/M
Total Revenues	<u>742,548</u>	<u>880,250</u>	<u>778,381</u>	<u>(137,702)</u>	<u>-16%</u>	<u>101,869</u>	<u>13%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	188,200	186,514	182,077	1,686	1%	4,437	2%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	116,254	69,411	30,336	46,843	67%	39,075	129%
Incentive Fees	61,668	111,244	103,902	(49,576)	-45%	7,342	7%
<b>Unrealized</b>							
Carried Interest	(28,583)	57,147	97,562	(85,730)	N/M	(40,415)	-41%
Incentive Fees	(16,252)	508	(45,262)	(16,760)	N/M	45,770	N/M
Total Compensation and Benefits	<u>321,287</u>	<u>424,824</u>	<u>368,615</u>	<u>(103,537)</u>	<u>-24%</u>	<u>56,209</u>	<u>15%</u>
Other Operating Expenses	90,524	96,940	84,488	(6,416)	-7%	12,452	15%
Total Expenses	<u>411,811</u>	<u>521,764</u>	<u>453,103</u>	<u>(109,953)</u>	<u>-21%</u>	<u>68,661</u>	<u>15%</u>
Economic Income	<u>\$330,737</u>	<u>\$358,486</u>	<u>\$325,278</u>	<u>\$ (27,749)</u>	<u>-8%</u>	<u>\$ 33,208</u>	<u>10%</u>

N/M Not meaningful.

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### *Revenues*

Revenues were \$742.5 million for the year ended December 31, 2014, which were \$137.7 million lower compared to \$880.3 million for the year ended December 31, 2013. The decrease in revenues was primarily attributable to lower Performance Fees of \$199.9 million, partially offset by an increase of \$63.8 million in Total Management Fees, Net.

Performance Fees were \$257.2 million for the year ended December 31, 2014, which were \$199.9 million lower compared to the prior year. This decrease was primarily due to lower rates of appreciation in our hedge fund strategies business and our rescue lending business. The net returns of Blackstone's Credit segment flagship funds were -1.5% for the hedge funds, 19.0% for the mezzanine funds and 11.9% for the rescue lending funds for the year ended December 31, 2014.

Total Management Fees, Net were \$450.2 million for the year ended December 31, 2014, an increase of \$63.8 million compared to \$386.4 million for the year ended December 31, 2013. This increase was primarily attributable to the growth in Fee-Earning Assets Under Management for our hedge fund strategies business and our business development companies.

Revenues were \$880.3 million for the year ended December 31, 2013, an increase of \$101.9 million compared to \$778.4 million for the year ended December 31, 2012. This change was primarily attributable to increases of \$88.4 million in Performance Fees and \$5.3 million in Total Management Fees.

Performance Fees were \$457.1 million for the year ended December 31, 2013, an increase of \$88.4 million compared to the prior year. This change was primarily attributable to higher returns in our hedge fund strategies funds and continued strong underlying company performance in the portfolios of our carry funds. The net returns of Blackstone's Credit segment funds were 18.2% for the hedge funds, 17.9% for the mezzanine funds and 24.3% for the rescue lending funds for the year ended December 31, 2013.

Total Management Fees were \$386.4 million for the year ended December 31, 2013, an increase of \$5.3 million compared to \$381.1 million for the year ended December 31, 2012. This change was primarily attributable to an increase of \$52.9 million in Base Management Fees due to the growth in Fee-Earning Assets Under Management and partially offset by an increase of \$35.3 million in Management Fee Offsets (primarily due to a \$29.6 million adjustment in connection with placement fees reimbursed to investors in certain drawdown funds from the second quarter of 2011 through the third quarter of 2013) and a decrease of \$12.3 million in Transaction and Other Fees.

### *Expenses*

Expenses were \$411.8 million for the year ended December 31, 2014, a decrease of \$110.0 million compared to \$521.8 million for the year ended December 31, 2013. The decrease in expenses was primarily attributable to a decrease of \$105.2 million in Performance Fee Compensation. The decrease in Performance Fee Compensation was due to lower Performance Fees Revenue.

Expenses were \$521.8 million for the year ended December 31, 2013, an increase of \$68.7 million compared to \$453.1 million for the year ended December 31, 2012. The increase in expenses was primarily attributable to increases of \$51.8 million in Performance Fee Compensation due to the increase in Performance Fees Revenue and \$12.5 million in Other Operating Expenses primarily due to an increase in interest expense allocated to the segment, partially offset by a reduction in fund start-up costs.

### *Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P.

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and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the return information of the segment's Flagship Hedge Funds:

Fund	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2014							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Flagship Hedge Funds (b)	0%	-2%	14%	10%	14%	10%	12%	8%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- The Flagship Hedge Funds' returns represent the weighted-average return for U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

The following table presents the internal rates of return of our significant Credit drawdown funds:

Fund (a)	Year Ended December 31,						December 31, 2014	
	2014		2013		2012		Inception to Date	
							Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Funds (b)	25%	19%	26%	18%	37%	26%	26%	19%
Rescue Lending Funds (c)	15%	12%	33%	24%	21%	16%	22%	16%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- The Mezzanine Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds, as applicable, for the significant mezzanine funds. The inception to date return is from July 16, 2007, which is before Blackstone's acquisition of GSO in March 2008.
- The Rescue Lending Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of December 31, 2014, the significant Credit drawdown funds were above their respective Carried Interest thresholds.

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### Financial Advisory

The following table presents the results of operations for our Financial Advisory segment:

	Year Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	\$	%	\$	%
	(Dollars in Thousands)						
<b>Segment Revenues</b>							
Advisory Fees	\$420,845	\$410,514	\$357,417	\$ 10,331	3%	\$53,097	15%
Transaction and Other Fees, Net	1,455	1,105	295	350	32%	810	275%
Total Advisory and Transaction Fees	422,300	411,619	357,712	10,681	3%	53,907	15%
<b>Investment Income (Loss)</b>							
Realized	707	(1,625)	1,392	2,332	N/M	(3,017)	N/M
Unrealized	860	739	1,348	121	16%	(609)	-45%
Total Investment Income (Loss)	1,567	(886)	2,740	2,453	N/M	(3,626)	N/M
Interest and Dividend Revenue	10,010	8,020	7,157	1,990	25%	863	12%
Other	428	1,450	(804)	(1,022)	-70%	2,254	N/M
Total Revenues	434,305	420,203	366,805	14,102	3%	53,398	15%
<b>Expenses</b>							
Compensation and Benefits							
Compensation	230,889	262,314	235,137	(31,425)	-12%	27,177	12%
Other Operating Expenses	88,148	82,205	84,589	5,943	7%	(2,384)	-3%
Total Expenses	319,037	344,519	319,726	(25,482)	-7%	24,793	8%
<b>Economic Income</b>	<u>\$115,268</u>	<u>\$ 75,684</u>	<u>\$ 47,079</u>	<u>\$ 39,584</u>	<u>52%</u>	<u>\$28,605</u>	<u>61%</u>

N/M Not meaningful.

#### Revenues

Revenues were \$434.3 million for the year ended December 31, 2014, an increase of \$14.1 million, or 3%, compared to \$420.2 million for the year ended December 31, 2013. The increase in Revenues was driven primarily by increases in Blackstone Advisory Partners (“BAP”) financial and strategic advisory business and the fund placement business, partially offset by a decrease in Restructuring and Reorganization business. The increase in BAP was primarily due to improving global mergers and acquisitions activity as well as a greater number of closed transactions. Revenue for the fund placement business increased slightly year-over-year and resulted in a record year. Restructuring and Reorganization experienced a decrease in Revenues, while 2014 was still one of the group’s best years in its history. Revenue for the capital markets business was essentially flat but experienced a positive 2014 acting as underwriter or arranger for over 25 deals.

Revenues were \$420.2 million for the year ended December 31, 2013, an increase of \$53.4 million, or 15%, compared to \$366.8 million for the year ended December 31, 2012. The increase in revenues was driven primarily by increases in Restructuring and Reorganization, capital markets and the fund placement business, partially offset by a decrease in BAP’s financial and strategic advisory business. The increase in Restructuring and Reorganization was primarily driven by an increase in the number and size of transactions compared to the prior year. The capital markets business was formed in late 2012 and during the year ended December 31, 2013 acted as underwriter or arranger for 26 deals. The increase in fees earned by the fund placement business was due primarily to an increase in the number of transactions that closed during the period. BAP experienced a decrease in revenues related to the overall decline in the mergers and acquisitions market, lower fees on closed transactions and timing of some deals.

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### *Expenses*

Expenses were \$319.0 million for the year ended December 31, 2014, a decrease of \$25.5 million, or 7%, compared to \$344.5 million for the year ended December 31, 2013. Compensation decreased \$31.4 million compared to \$262.3 million for the year ended December 31, 2013, principally due to relatively flat revenue, on which a portion of compensation is based, and due to a change in the terms of Deferred Compensation Plan awards. This decrease was partially offset by an increase in Other Operating Expenses primarily due to interest expense allocated to the segment as well as an increase in bad debt expense.

Expenses were \$344.5 million for the year ended December 31, 2013, an increase of \$24.8 million, or 8%, compared to \$319.7 million for the year ended December 31, 2012. Compensation increased \$27.2 million compared to \$235.1 million for the year ended December 31, 2012, principally due to an overall increase in total fee revenue across the segment. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses decreased \$2.4 million from the year ended December 31, 2012.

## **Liquidity and Capital Resources**

### *General*

Blackstone's business model derives revenue primarily from third party assets under management and from advisory businesses. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, or pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$31.5 billion as of December 31, 2014, up from December 31, 2013. Total liabilities were \$14.2 billion as of December 31, 2014, a decrease of \$1.1 billion from December 31, 2013. The decrease in total liabilities was primarily due to a decrease in Loans Payable of \$1.5 billion resulting from the deconsolidation of certain CLO vehicles and loan repayments.

For the year ended December 31, 2014, we had Total Fee Related Revenues of \$2.7 billion and related expenses of \$1.7 billion, generating Fee Related Earnings of \$1.0 billion and Distributable Earnings of \$3.1 billion.

### *Sources of Liquidity*

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010, 2012 and 2014 issuances of senior notes. As of December 31, 2014, Blackstone had \$1.4 billion in cash, \$1.8 billion invested in Blackstone's Treasury Cash Management Strategies, \$175.8 million invested in liquid Blackstone Funds,

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\$2.3 billion invested in illiquid Blackstone Funds and \$132.0 million invested in other investments, against \$2.1 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

In addition to the cash we received in connection with our IPO, debt offerings and our borrowing facilities, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

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The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

(Dollars in Thousands)	<u>2014</u>	<u>2013</u>	<u>2012</u>	
▶ Base Management Fees <sup>(a)</sup>	\$ 1,987,529	\$ 1,740,807	\$ 1,591,403	Fee Earnings
▶ Advisory Fees <sup>(a)</sup>	420,845	410,514	357,417	
▶ Transaction and Other Fees, Net <sup>(a)</sup>	246,437	206,977	227,119	
▶ Management Fee Offsets <sup>(a)</sup>	(86,771)	(72,220)	(40,953)	
▶ Interest Income and Other Revenue <sup>(b)</sup>	106,691	61,670	77,548	
▶ Compensation <sup>(a)</sup>	(1,153,511)	(1,115,640)	(1,030,776)	
▶ Other Operating Expenses <sup>(a)</sup>	(553,782)	(486,639)	(481,445)	
<b>Fee Related Earnings</b>	<b>\$ 967,438</b>	<b>\$ 745,469</b>	<b>\$ 700,313</b>	Distributable Earnings
▶ Net Realized Incentive Fees <sup>(b)</sup>	151,646	273,418	161,422	
▶ Net Realized Carried Interest <sup>(b)</sup>	1,634,953	686,757	230,989	
▶ Net Realized Investment Income <sup>(b)</sup>	536,358	183,665	73,526	
▶ Taxes and Related Payables <sup>(c)</sup>	(280,788)	(156,734)	(132,325)	
▶ Equity-Based Compensation <sup>(d)</sup>	48,226	130,124	90,040	Economic Net Income
<b>Distributable Earnings</b>	<b>\$ 3,057,833</b>	<b>\$ 1,862,699</b>	<b>\$ 1,123,965</b>	
▶ Net Unrealized Incentive Fees <sup>(b)</sup>	(10,149)	(8,277)	15,217	
▶ Net Unrealized Carried Interest <sup>(b)</sup>	1,329,924	1,191,293	672,591	
▶ Net Unrealized Investment Income (Loss) <sup>(b)</sup>	(65,672)	523,714	186,949	
▶ Add Back: Related Payables <sup>(e)</sup>	81,276	74,570	86,617	
▶ Less: Equity-Based Compensation <sup>(d)</sup>	(48,226)	(130,124)	(90,040)	
<b>Economic Net Income</b>	<b>\$ 4,344,986</b>	<b>\$ 3,513,875</b>	<b>\$ 1,995,299</b>	

- (a) Represents the total segment amounts of the respective captions. See Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Represents the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.



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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

(Dollars in Thousands)	2014	2013	2012
Interest Income and Dividend Revenue <sup>(a)</sup>	\$ 96,344	\$ 70,936	\$ 46,630
Other Revenue <sup>(a)</sup>	9,405	10,308	5,149
Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(b)</sup>	942	(19,574)	25,769
<b>Interest Income and Other Revenue</b>	<b>\$ 106,691</b>	<b>\$ 61,670</b>	<b>\$ 77,548</b>
Realized Incentive Fees <sup>(a)</sup>	261,745	474,333	301,464
Less: Realized Incentive Fee Compensation <sup>(a)</sup>	(110,099)	(200,915)	(140,042)
<b>Net Realized Incentive Fees</b>	<b>\$ 151,646</b>	<b>\$ 273,418</b>	<b>\$ 161,422</b>
Realized Carried Interest <sup>(a)</sup>	2,450,596	943,958	327,422
Less: Realized Carried Interest Compensation <sup>(a)</sup>	(815,643)	(257,201)	(96,433)
<b>Net Realized Carried Interest</b>	<b>\$ 1,634,953</b>	<b>\$ 686,757</b>	<b>\$ 230,989</b>
Realized Investment Income <sup>(a)</sup>	543,425	170,471	95,398
Adjustment Related to Realized Investment (Income) Loss - Blackstone's Treasury Cash Management Strategies <sup>(c)</sup>	(7,067)	13,194	(21,872)
<b>Net Realized Investment Income</b>	<b>\$ 536,358</b>	<b>\$ 183,665</b>	<b>\$ 73,526</b>
<b>Equity-Based Compensation<sup>(d)</sup></b>	<b>\$ 48,226</b>	<b>\$ 130,124</b>	<b>\$ 90,040</b>
<b>Taxes and Related Payables</b>	<b>\$ (280,788)</b>	<b>\$ (156,734)</b>	<b>\$ (132,325)</b>
Unrealized Incentive Fees <sup>(a)</sup>	(29,425)	(19,928)	(29,311)
Less: Unrealized Incentive Fee Compensation <sup>(a)</sup>	19,276	11,651	44,528
<b>Net Unrealized Incentive Fees</b>	<b>\$ (10,149)</b>	<b>\$ (8,277)</b>	<b>\$ 15,217</b>
Unrealized Carried Interest <sup>(a)</sup>	1,708,961	2,158,010	994,190
Less: Unrealized Carried Interest Compensation <sup>(a)</sup>	(379,037)	(966,717)	(321,599)
<b>Net Unrealized Carried Interest</b>	<b>\$ 1,329,924</b>	<b>\$ 1,191,293</b>	<b>\$ 672,591</b>
Unrealized Investment Income (Loss) <sup>(a)</sup>	(71,797)	517,334	190,846
Less: Investment (Income) Loss - Blackstone's Treasury Cash Management Strategies <sup>(b)</sup>	(942)	19,574	(25,769)
Less: Adjustment Related to Realized Investment (Income) Loss - Blackstone's Treasury Cash Management Strategies <sup>(c)</sup>	7,067	(13,194)	21,872
<b>Net Unrealized Investment Income (Loss)</b>	<b>\$ (65,672)</b>	<b>\$ 523,714</b>	<b>\$ 186,949</b>
<b>Related Payables<sup>(e)</sup></b>	<b>\$ 81,276</b>	<b>\$ 74,570</b>	<b>\$ 86,617</b>

(a) Represents the total segment amounts of the respective captions. See Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

(b) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.

(c) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

(d) Represents equity-based award expense included in Economic Income.

(e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

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The following table is a reconciliation of Net Income Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

(Dollars in Thousands)	2014	2013	2012
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 1,584,589</b>	<b>\$ 1,171,202</b>	<b>\$ 218,598</b>
Net Income Attributable to Non-Controlling Interests			
in Blackstone Holdings	1,701,100	1,339,845	407,727
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	335,070	198,557	99,959
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	74,794	183,315	103,598
<b>Net Income</b>	<b>\$ 3,695,553</b>	<b>\$ 2,892,919</b>	<b>\$ 829,882</b>
Provision for Taxes	291,173	255,642	185,023
<b>Income Before Provision for Taxes</b>	<b>\$ 3,986,726</b>	<b>\$ 3,148,561</b>	<b>\$ 1,014,905</b>
IPO and Acquisition-Related Charges <sup>(a)</sup>	856,382	722,707	1,079,511
Amortization of Intangibles <sup>(b)</sup>	111,254	106,643	150,148
(Income) Associated with Non-Controlling Interests of Consolidated Entities <sup>(c)</sup>	(409,864)	(381,872)	(203,557)
<b>Economic Income</b>	<b>\$ 4,544,498</b>	<b>\$ 3,596,039</b>	<b>\$ 2,041,007</b>
Taxes <sup>(d)</sup>	(199,512)	(82,164)	(45,708)
<b>Economic Net Income</b>	<b>\$ 4,344,986</b>	<b>\$ 3,513,875</b>	<b>\$ 1,995,299</b>
Taxes <sup>(d)</sup>	199,512	82,164	45,708
Performance Fee Adjustment <sup>(e)</sup>	(4,391,877)	(3,556,373)	(1,593,765)
Investment (Income) Adjustment <sup>(f)</sup>	(471,628)	(687,805)	(286,244)
Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(g)</sup>	942	(19,574)	25,769
Performance Fee Compensation and Benefits Adjustment <sup>(h)</sup>	1,285,503	1,413,182	513,546
<b>Fee Related Earnings</b>	<b>\$ 967,438</b>	<b>\$ 745,469</b>	<b>\$ 700,313</b>
Realized Performance Fees <sup>(i)</sup>	1,786,599	960,175	392,411
Realized Investment Income <sup>(i)</sup>	543,425	170,471	95,398
Adjustment Related to Realized Investment (Income) Loss - Blackstone's Treasury Cash Management Strategies <sup>(k)</sup>	(7,067)	13,194	(21,872)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(l)</sup>	(280,788)	(156,734)	(132,325)
Equity-Based Compensation <sup>(m)</sup>	48,226	130,124	90,040
<b>Distributable Earnings</b>	<b>\$ 3,057,833</b>	<b>\$ 1,862,699</b>	<b>\$ 1,123,965</b>
Interest Expense	132,855	103,904	69,152
Taxes and Related Payables Including Payable Under Tax Receivable Agreement <sup>(l)</sup>	280,788	156,734	132,325
Depreciation and Amortization	32,300	35,441	42,235
<b>Adjusted EBITDA</b>	<b>\$ 3,503,776</b>	<b>\$ 2,158,778</b>	<b>\$ 1,367,677</b>

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- (a) The adjustment adds back to Income Before Provision for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income Before Provision for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income Before Provision for Taxes the amount of (Income) Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision calculated on Income Before Provision for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment (Income).
- (g) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income — Realized.
- (k) Represents the elimination of Realized Investment (Income) Loss attributable to Blackstone's Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment (Income) Loss.
- (l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (m) Represents equity-based award expense included in Economic Income.

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### Liquidity Needs

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2014 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VI	\$ 719,718	\$ 326,002	\$ 250,000	\$ 113,240
BCP V	629,356	42,258	—	—
BEP	50,000	15,724	—	—
BEP II	80,000	80,000	—	—
Tactical Opportunities	129,435	65,512	28,819	14,586
Strategic Partners	131,149	106,590	20,294	16,665
Other (b)	214,379	19,147	—	—
<b>Real Estate Funds</b>				
BREP VII	300,000	69,797	100,000	23,266
BREP VI	750,000	39,215	150,000	7,843
BREP Europe III	100,000	14,652	35,000	5,128
BREP Europe IV	130,000	81,888	43,333	27,296
BREP Asia	50,392	28,312	16,667	9,364
BREDS II	50,000	25,829	16,667	8,610
CT Opportunity Partners I	25,000	23,048	—	—
Other (b)	144,907	42,736	—	—
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033	—	—
Strategic Alliance II	50,000	2,862	—	—
Strategic Holdings LP	50,000	46,657	—	—
Other (b)	300	155	—	—
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	78,382	110,678	72,293
GSO Capital Solutions II	125,000	108,950	95,272	83,039
Blackstone/GSO Capital Solutions	50,000	9,602	27,666	5,313
Blackstone Credit Liquidity Partners	32,244	1,612	—	—
BMezz II	17,692	3,085	—	—
Other (b)	92,649	66,337	10,293	6,932
<b>Other</b>				
Treasury	118,106	114,886	—	—
<b>Total</b>	<b>\$4,210,327</b>	<b>\$1,415,271</b>	<b>\$ 904,689</b>	<b>\$ 393,575</b>

- (a) For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown

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in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

(b) Represents capital commitments to a number of other funds in each respective segment.

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. (These issuances of Senior Notes are collectively referred to as the “Notes”.) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors’ ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2014, no units were repurchased. As of December 31, 2014, the amount remaining under this program available for repurchases was \$335.8 million.

### *Distributions*

Distributable Earnings, which is derived from Blackstone’s segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue,

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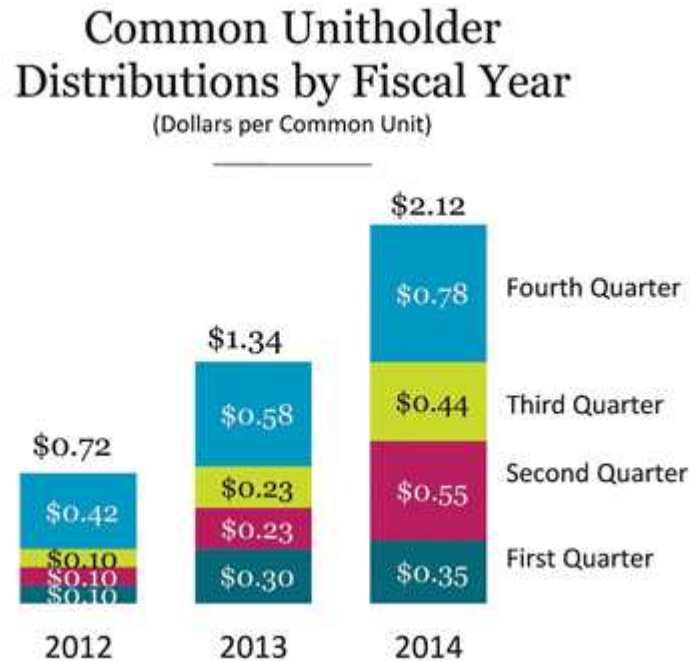
(d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.’s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone’s general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

The following chart shows fiscal quarterly and annual per common unitholder distributions for 2012, 2013 and 2014. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.



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With respect to fiscal year 2014, we have paid to common unitholders distributions of \$0.35, \$0.55, \$0.44 and \$0.78 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.12 per common unit. With respect to fiscal years 2013 and 2012, we paid aggregate common unitholder distributions of \$1.34 per common unit and \$0.72 per common unit, respectively.

With respect to fiscal year 2014, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.38, \$0.60, \$0.56 and \$0.92 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$2.46 per Blackstone Holdings Partnership Unit. With respect to fiscal years 2013 and 2012, we paid aggregate distributions of \$1.52 per Blackstone Holdings Partnership Unit and \$0.88 per Blackstone Holdings Partnership Unit, respectively.

### Leverage

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles.

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Real Estate debt hedge funds, Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

The following table presents information regarding these financial instruments in our Consolidated Statements of Financial Condition:

	<u>Reverse Repurchase Agreements</u>	<u>Repurchase Agreements</u> (Dollars in Millions)	<u>Securities Sold, Not Yet Purchased</u>
Balance, December 31, 2014	\$ —	\$ 29.9	\$ 85.9
Balance, December 31, 2013	\$ 149.0	\$ 316.3	\$ 76.2
Year Ended December 31, 2014			
Average Daily Balance	\$ 68.3	\$ 124.8	\$ 142.4
Maximum Daily Balance	\$ 197.0	\$ 375.0	\$ 296.4

### Critical Accounting Policies

We prepare our Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of

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assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.)

### *Principles of Consolidation*

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings Partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance, and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE, and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- The entity has all of the attributes of an investment company,
- The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance as discussed in Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data”, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.



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Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

### **Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business — Incentive Arrangements / Fee Structure” for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

- 0.30% to 1.50% of committed capital or invested capital during the investment period,
- 0.25% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital or net asset value for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

- 1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

- 0.30% to 1.35% of net asset value.

On real estate separately managed accounts:

- 0.50% to 2.00% of invested capital or net operating income.

On funds of hedge funds and separately managed accounts invested in hedge funds:

- 0.50% to 1.25% of net asset value.

On CLO vehicles:

- 0.40% to 1.25% of total assets.

On credit-focused registered and non-registered investment companies:

- 0.50% to 1.50% of fund assets or net asset value.

The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT’s net proceeds received from equity offerings and accumulated “core earnings” (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are

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met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

### **Fair Value of Financial Instruments**

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

### *Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

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- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques — Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Used in Fair Value Hedging Strategies are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

### *Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management’s determination of fair value is then based on the best information available in the circumstances, and may incorporate management’s own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (“cap rates”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment’s fair value.

*Funds of Hedge Funds* — The investments of consolidated Blackstone Funds in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee’s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of

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the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* — Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

### *Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

### *Investments, at Fair Value*

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to

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third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

### *Intangibles and Goodwill*

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013.

Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. We test goodwill for impairment at the operating segment level (the same as our

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segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.8 billion as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, we determined there was no evidence of Goodwill impairment.

### Off-Balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing as follows:

- Note 6. “Derivative Financial Instruments”,
- Note 9. “Variable Interest Entities”, and
- Note 18. “Commitments and Contingencies — Commitments, Operating Leases; — Commitments, Investment Commitments; and — Contingencies, Guarantees”.

### Recent Accounting Developments

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “— Item 8. Financial Statements and Supplementary Data” of this filing.



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### Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of December 31, 2014 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

<u>Contractual Obligations</u>	<u>2015</u>	<u>2016-2017</u>	<u>2018-2019</u> (Dollars in Thousands)	<u>Thereafter</u>	<u>Total</u>
Operating Lease Obligations (a)	\$ 71,589	\$ 125,260	\$ 112,128	\$ 491,849	\$ 800,826
Purchase Obligations	19,062	6,804	435	—	26,301
Blackstone Issued Notes and Revolving Credit Facility (b)	—	—	585,000	1,550,000	2,135,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	121,887	243,762	229,229	1,052,745	1,647,623
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	—	495,385	—	6,845,808	7,341,193
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	73,496	184,092	168,530	405,313	831,431
Blackstone Funds Capital Commitments to Investee Funds (f)	45,772	—	—	—	45,772
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)	82,830	148,357	160,592	873,087	1,264,866
Unrecognized Tax Benefits, Including Interest and Penalties (h)	5,421	—	—	—	5,421
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	<u>1,415,271</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,415,271</u>
Consolidated Contractual Obligations	<u>1,835,328</u>	<u>1,203,660</u>	<u>1,255,914</u>	<u>11,218,802</u>	<u>15,513,704</u>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	—	(495,385)	—	(6,845,808)	(7,341,193)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(73,496)	(184,092)	(168,530)	(405,313)	(831,431)
Blackstone Funds Capital Commitments to Investee Funds (f)	(45,772)	—	—	—	(45,772)
Blackstone Operating Entities Contractual Obligations	<u>\$1,716,060</u>	<u>\$ 524,183</u>	<u>\$1,087,384</u>	<u>\$ 3,967,681</u>	<u>\$ 7,295,308</u>

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2014, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of

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December 31, 2014, at spreads to market rates pursuant to the financing agreements, and range from 0.30% to 10.78%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 17. "Related Party Transactions" (see "— Item 8. Financial Statements and Supplementary Data") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$3.2 million and interest and penalties of \$2.2 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$16.6 million and interest of \$5.6 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

### *Guarantees*

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 18. "Commitments and Contingencies — Contingencies — Guarantees" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.

### *Indemnifications*

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2014.

### *Clawback Obligations*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's

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remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of December 31, 2014, the total clawback obligations were \$3.9 million, of which \$2.5 million related to current and former Blackstone personnel, and \$1.4 million related to Blackstone Holdings. (See Note 17. "Related Party Transactions" and Note 18. "Commitments and Contingencies" in the "Notes to Consolidated Financial Statements" in "— Item 8. Financial Statements and Supplementary Data" of this filing.)

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

#### Effect on Fund Management Fees

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the years ended December 31, 2014 and December 31, 2013, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Year Ended December 31,	
	2014	2013
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	36%	31%

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### Market Risk

The Blackstone Funds hold investments that are reported at fair value. Based on the fair value as of December 31, 2014 and December 31, 2013, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2014			2013		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in Fair Value of the Investments	\$ 86,002	\$ 1,725,051	\$268,053	\$ 72,894	\$ 851,121	\$300,786

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	December 31, 2014	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 49,067,767	71%
Real Estate	\$ 65,600,887	76%
Hedge Fund Solutions	\$ 63,009,263	58%
Credit	\$ 42,587,501	46%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I. Item 1A. Risk Factors" above. Also see "— Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investments, at Fair Value.") We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

### Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally,

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a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2014 and December 31, 2013, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2014			2013		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b) (Dollars in Thousands)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 21,882	\$ 333,784	\$ 36,254	\$ 23,300	\$ 172,236	\$ 39,219

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

## Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2014 and December 31, 2013, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	December 31,	
	2014	2013
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 69	\$ 131

Blackstone's Treasury Cash Management Strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the "Treasury Liquidity Portfolio"). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	December 31,			
	2014		2013	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
	(Dollars in Thousands)			
One Percentage Point Increase in Interest Rates	\$ 17,868(a)	\$ 15,201	\$ 8,251(a)	\$ 8,374

(a) As of December 31, 2014 and 2013, this represents 0.6% and 0.4% of the Treasury Liquidity Portfolio, respectively.

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### Credit Risk

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>(Dollars in Thousands)</u>	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$57,157	\$22,865

(a) As of December 31, 2014 and 2013, this represents 1.8% and 1.1% of the Treasury Liquidity Portfolio, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Independent Registered Public Accounting Firm**

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission .

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 27, 2015



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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,412,472	\$ 831,998
Cash Held by Blackstone Funds and Other	1,808,092	1,045,882
Investments (including assets pledged of \$45,764 and \$316,564 at December 31, 2014 and December 31, 2013, respectively)	22,765,589	21,729,523
Accounts Receivable	559,321	888,356
Reverse Repurchase Agreements	—	148,984
Due from Affiliates	1,128,408	1,192,044
Intangible Assets, Net	458,833	560,748
Goodwill	1,787,392	1,787,392
Other Assets	338,557	284,472
Deferred Tax Assets	1,252,230	1,209,207
<b>Total Assets</b>	<b><u>\$31,510,894</u></b>	<b><u>\$29,678,606</u></b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 8,937,638	\$10,466,504
Due to Affiliates	1,490,088	1,436,859
Accrued Compensation and Benefits	2,439,257	2,132,939
Securities Sold, Not Yet Purchased	85,878	76,195
Repurchase Agreements	29,907	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	1,194,579	872,086
<b>Total Liabilities</b>	<b><u>14,177,347</u></b>	<b><u>15,300,935</u></b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b><u>2,441,854</u></b>	<b><u>1,950,442</u></b>
<b>Partners' Capital</b>		
Partners' Capital (common units: 595,624,855 issued and outstanding as of December 31, 2014; 572,592,279 issued and outstanding as of December 31, 2013)	6,999,830	6,002,592
Appropriated Partners' Capital	81,301	300,708
Accumulated Other Comprehensive Income	(20,864)	3,466
Non-Controlling Interests in Consolidated Entities	3,415,356	2,464,047
Non-Controlling Interests in Blackstone Holdings	4,416,070	3,656,416
<b>Total Partners' Capital</b>	<b><u>14,891,693</u></b>	<b><u>12,427,229</u></b>
<b>Total Liabilities and Partners' Capital</b>	<b><u>\$31,510,894</u></b>	<b><u>\$29,678,606</u></b>

continued...

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$1,325,094	\$ 618,881
Investments	7,759,322	9,700,804
Accounts Receivable	131,996	231,052
Due from Affiliates	65,124	27,022
Other Assets	48,441	29,755
<b>Total Assets</b>	<u>\$9,329,977</u>	<u>\$10,607,514</u>
<b>Liabilities</b>		
Loans Payable	\$6,787,100	\$ 8,802,155
Due to Affiliates	182,107	143,444
Accounts Payable, Accrued Expenses and Other	697,149	284,818
<b>Total Liabilities</b>	<u>\$7,666,356</u>	<u>\$ 9,230,417</u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Operations**  
**(Dollars in Thousands, Except Unit and Per Unit Data)**

	Year Ended December 31,		
	2014	2013	2012
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693
Performance Fees			
Realized			
Carried Interest	2,450,082	943,958	327,422
Incentive Fees	249,005	464,838	301,801
Unrealized			
Carried Interest	1,704,924	2,158,010	994,190
Incentive Fees	(29,749)	(22,749)	(30,361)
Total Performance Fees	<u>4,374,262</u>	<u>3,544,057</u>	<u>1,593,052</u>
Investment Income			
Realized	523,735	188,644	93,963
Unrealized	10,265	611,664	256,231
Total Investment Income	<u>534,000</u>	<u>800,308</u>	<u>350,194</u>
Interest and Dividend Revenue	69,809	64,511	40,354
Other	9,405	10,307	5,148
<b>Total Revenues</b>	<u>7,484,728</u>	<u>6,613,168</u>	<u>4,019,441</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	1,868,868	1,844,485	2,091,698
Performance Fee Compensation			
Realized			
Carried Interest	815,643	257,201	96,433
Incentive Fees	110,099	200,915	140,042
Unrealized			
Carried Interest	379,037	966,717	321,599
Incentive Fees	(19,276)	(11,651)	(44,528)
Total Compensation and Benefits	<u>3,154,371</u>	<u>3,257,667</u>	<u>2,605,244</u>
General, Administrative and Other	549,463	474,442	548,738
Interest Expense	121,524	107,973	72,870
Fund Expenses	30,498	26,658	33,829
<b>Total Expenses</b>	<u>3,855,856</u>	<u>3,866,740</u>	<u>3,260,681</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	—	20,469	—
Net Gains from Fund Investment Activities	357,854	381,664	256,145
<b>Total Other Income</b>	<u>357,854</u>	<u>402,133</u>	<u>256,145</u>
<b>Income Before Provision for Taxes</b>	3,986,726	3,148,561	1,014,905
<b>Provision for Taxes</b>	291,173	255,642	185,023
<b>Net Income</b>	3,695,553	2,892,919	829,882
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	74,794	183,315	103,598
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	335,070	198,557	99,959
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	1,701,100	1,339,845	407,727
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>	<u>\$ 218,598</u>
<b>Net Income Per Common Unit</b>			
Common Units, Basic	\$ 2.60	\$ 2.00	\$ 0.41
Common Units, Diluted	\$ 2.58	\$ 1.98	\$ 0.41
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	608,803,111	587,018,828	533,703,606
Common Units, Diluted	<u>613,176,405</u>	<u>590,546,640</u>	<u>538,669,070</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	\$ 327,134	\$ 253,877	\$ 254,729

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in Thousands)**

	Year Ended December 31,		
	2014	2013	2012
Net Income	\$3,695,553	\$2,892,919	\$829,882
Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment	(57,924)	9,896	1,859
Comprehensive Income	<u>3,637,629</u>	<u>2,902,815</u>	<u>831,741</u>
Less:			
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	74,794	183,315	103,598
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	301,477	207,157	101,606
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	<u>1,701,100</u>	<u>1,339,845</u>	<u>407,727</u>
Comprehensive Income Attributable to The Blackstone Group L.P.	<u>\$1,560,258</u>	<u>\$1,172,498</u>	<u>\$218,810</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>							
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	233,386	—	155	—	233,541	—
Consolidation of Certain Funds	—	—	—	—	—	—	—	50,224
Net Income	—	218,598	—	—	99,959	407,727	726,284	103,598
Allocation of Losses of Consolidated CLO Entities	—	—	(112,869)	—	112,869	—	—	—
Currency Translation Adjustment	—	—	—	212	1,647	—	1,859	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	1,647	—	(1,647)	—	—	—
Capital Contributions	—	—	—	—	322,562	34	322,596	462,261
Capital Distributions	—	(271,890)	—	—	(116,672)	(342,640)	(731,202)	(151,713)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(4,584)	(17,392)	(21,976)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(63)	—	—	—	—	(63)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	57,356	—	—	—	—	57,356	—
Equity-Based Compensation	—	437,444	—	—	—	494,834	932,278	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	—	—	—	—	—	(18)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	8,748,146	(21,453)	—	—	—	(911)	(22,364)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,423)	—	—	—	2,423	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	58,175,334	256,239	—	—	—	(256,239)	—	—
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$9,658,762	\$ 1,556,185

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>				Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income				
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Consolidation of Fund Entity	—	—	—	—	659,001	—	659,001	—
Net Income	—	1,171,202	—	—	198,557	1,339,845	2,709,604	183,315
Allocation of Losses of Consolidated CLO Entities	—	—	(186,183)	—	186,183	—	—	—
Currency Translation Adjustment	—	—	—	1,296	8,600	—	9,896	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	8,600	—	(8,600)	—	—	—
Capital Contributions	—	—	—	—	285,757	262	286,019	894,792
Capital Distributions	—	(679,082)	—	—	(306,605)	(790,397)	(1,776,084)	(555,943)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(2,403)	—	(2,403)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(43)	—	—	—	—	(43)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	80,580	—	—	—	—	80,580	—
Equity-Based Compensation	—	411,516	—	—	—	399,567	811,083	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(30,737)	—	(2)	—	(30,739)	(127,907)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	6,464,259	(20,366)	—	—	—	(481)	(20,847)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,519)	—	—	—	2,519	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	8,232,434	43,255	—	—	—	(43,255)	—	—
Issuance of New Units	1,541,199	42,400	—	—	—	—	42,400	—
<b>Balance at December 31, 2013</b>	572,592,279	\$6,002,592	\$ 300,708	\$ 3,466	\$ 2,464,047	\$ 3,656,416	\$12,427,229	\$ 1,950,442

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 2,464,047	\$ 3,656,416	\$12,427,229	\$ 1,950,442
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	8,398	—	—	—	8,398	—
Consolidation of Fund Entity	—	—	—	—	323,158	—	323,158	30,922
Net Income	—	1,584,589	—	—	335,070	1,701,100	3,620,759	74,794
Allocation of Losses of Consolidated CLO Entities	—	—	(111,723)	—	111,723	—	—	—
Currency Translation Adjustment	—	—	—	(24,330)	(33,594)	—	(57,924)	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	(33,594)	—	33,594	—	—	—
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities	—	(611)	—	—	—	—	(611)	—
Capital Contributions	—	—	—	—	760,357	—	760,357	851,658
Capital Distributions	—	(1,148,139)	—	—	(577,032)	(1,200,457)	(2,925,628)	(465,962)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(1,885)	—	(1,885)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(6)	—	—	—	—	(6)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	22,982	—	—	—	—	22,982	—
Equity-Based Compensation	—	421,363	—	—	—	386,703	808,066	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(82,488)	—	(82)	—	(82,570)	—
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	6,407,733	(35,469)	—	—	—	(783)	(36,252)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	—	25,620	—	—	—	—	25,620	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	9,032	—	—	—	(9,032)	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	16,624,843	117,877	—	—	—	(117,877)	—	—
<b>Balance at December 31, 2014</b>	<u>595,624,855</u>	<u>\$ 6,999,830</u>	<u>\$ 81,301</u>	<u>\$ (20,864)</u>	<u>\$ 3,415,356</u>	<u>\$ 4,416,070</u>	<u>\$14,891,693</u>	<u>\$ 2,441,854</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2014	2013	2012
<b>Operating Activities</b>			
Net Income	\$ 3,695,553	\$ 2,892,919	\$ 829,882
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Blackstone Funds Related			
Unrealized Appreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(430,738)	(1,069,479)	(397,470)
Net Realized Gains on Investments	(3,343,635)	(1,792,106)	(710,755)
Changes in Unrealized (Gains) Losses on Investments Allocable to The Blackstone Group L.P.	83,140	(506,546)	(181,481)
Unrealized Depreciation on Hedge Activities	—	—	22,599
Non-Cash Performance Fees	(1,317,707)	(1,143,903)	(699,711)
Non-Cash Performance Fee Compensation	1,285,503	1,413,182	513,546
Equity-Based Compensation Expense	734,733	855,087	949,633
Excess Tax Benefits Related to Equity-Based Compensation	(25,646)	(5,769)	—
Amortization of Intangibles	101,915	95,671	139,174
Other Non-Cash Amounts Included in Net Income	121,808	206,451	353,052
Cash Flows Due to Changes in Operating Assets and Liabilities			
Cash Held by Blackstone Funds and Other	(390,092)	371,641	(367,101)
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(476,533)	(173,726)	(48,284)
Accounts Receivable	229,331	(46,580)	(60,520)
Reverse Repurchase Agreements	148,984	99,034	(108,533)
Due from Affiliates	229,837	237,169	(73,485)
Other Assets	(82,890)	15,445	51,031
Accrued Compensation and Benefits	(836,852)	(454,724)	(119,862)
Securities Sold, Not Yet Purchased	(144,383)	(142,952)	88,474
Accounts Payable, Accrued Expenses and Other Liabilities	(305,978)	(316,082)	(408,256)
Repurchase Agreements	(325,199)	174,629	40,417
Due to Affiliates	35,504	(216,671)	(88,425)
Treasury Cash Management Strategies			
Investments Purchased	(3,448,738)	(4,368,096)	(3,414,291)
Cash Proceeds from Sale of Investments	3,022,390	4,643,886	2,729,689
Blackstone Funds Related			
Investments Purchased	(7,531,108)	(8,245,313)	(6,845,184)
Cash Proceeds from Sale or Pay Down of Investments	10,625,790	11,024,774	8,389,016
Net Cash Provided by Operating Activities	<u>1,654,989</u>	<u>3,547,941</u>	<u>583,155</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(30,271)	(25,637)	(37,020)
Net Cash Paid for Acquisitions, Net of Cash Acquired	—	(146,117)	(188,306)
Changes in Restricted Cash	5,846	5,850	2,345
Net Cash Used in Investing Activities	<u>(24,425)</u>	<u>(165,904)</u>	<u>(222,981)</u>

continued...

See notes to consolidated financial statements.



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2014	2013	2012
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (982,405)	\$ (844,011)	\$(261,582)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	1,560,183	1,114,457	773,714
Purchase of Interests from Certain Non-Controlling Interest Holders	(6)	(43)	(63)
Payments Under Tax Receivable Agreement	(86,733)	—	—
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(36,252)	(24,140)	(22,364)
Excess Tax Benefits Related to Equity-Based Compensation	25,646	5,769	—
Proceeds from Loans Payable	491,150	11,367	633,742
Repayment and Repurchase of Loans Payable	(8,735)	(16,777)	(33,168)
Distributions to Unitholders	(2,348,596)	(1,469,479)	(614,530)
Blackstone Funds Related			
Proceeds from Loans Payable	2,144,390	53,917	17,820
Repayment of Loans Payable	(1,808,549)	(2,090,674)	(898,980)
Net Cash Used in Financing Activities	<u>(1,049,907)</u>	<u>(3,259,614)</u>	<u>(405,411)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(183)	73	(5)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	580,474	122,496	(45,242)
Cash and Cash Equivalents, Beginning of Period	831,998	709,502	754,744
Cash and Cash Equivalents, End of Period	<u>\$ 1,412,472</u>	<u>\$ 831,998</u>	<u>\$ 709,502</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	<u>\$ 116,296</u>	<u>\$ 125,361</u>	<u>\$ 80,159</u>
Payments for Income Taxes	<u>\$ 236,718</u>	<u>\$ 69,858</u>	<u>\$ 30,234</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	<u>\$ 47,683</u>	<u>\$ 63,273</u>	<u>\$ 6,803</u>
Non-Cash Distributions to Non-Controlling Interest Holders	<u>\$ (60,589)</u>	<u>\$ (18,537)</u>	<u>\$ (6,803)</u>
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	<u>\$ 16,181</u>	<u>\$ (6,029)</u>	<u>\$ (5,409)</u>
Net Assets Related to the Consolidation of CLO Vehicles	<u>\$ 8,398</u>	<u>\$ —</u>	<u>\$ 233,541</u>
Net Assets Related to the Consolidation of Certain Fund Entities	<u>\$ 354,080</u>	<u>\$ 659,001</u>	<u>\$ 50,224</u>
In-kind Redemption of Capital	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2,017)</u>
In-kind Contribution of Capital	<u>\$ —</u>	<u>\$ 2,323</u>	<u>\$ 2,017</u>
Notes Issuance Costs	<u>\$ 4,375</u>	<u>\$ —</u>	<u>\$ 4,788</u>
Transfer of Interests to Non-Controlling Interest Holders	<u>\$ (1,885)</u>	<u>\$ (2,403)</u>	<u>\$ (4,584)</u>
Change in The Blackstone Group L.P.'s Ownership Interest	<u>\$ 9,032</u>	<u>\$ (2,519)</u>	<u>\$ (2,423)</u>
Net Settlement of Vested Common Units	<u>\$ 69,426</u>	<u>\$ 153,522</u>	<u>\$ 167,046</u>
Conversion of Blackstone Holdings Units to Common Units	<u>\$ 117,877</u>	<u>\$ 43,255</u>	<u>\$ 256,239</u>
Acquisition of Ownership Interests from Non-Controlling Interest Holders			
Deferred Tax Asset	<u>\$ (105,686)</u>	<u>\$ (113,757)</u>	<u>\$(204,320)</u>
Due to Affiliates	<u>\$ 82,704</u>	<u>\$ 33,177</u>	<u>\$ 146,964</u>
Partners' Capital	<u>\$ 22,982</u>	<u>\$ 80,580</u>	<u>\$ 57,356</u>
Issuance of New Units	<u>\$ —</u>	<u>\$ 42,400</u>	<u>\$ —</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries (“Blackstone” or the “Partnership”), is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts (“REITs”), funds of hedge funds, hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, collateralized debt obligation (“CDO”) vehicles, separately managed accounts and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. Blackstone’s business is organized into five segments: private equity, real estate, hedge fund solutions, credit and financial advisory.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone’s founders, Stephen A. Schwarzman (the “Founder”), and Blackstone’s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, “Blackstone Holdings”, “Blackstone Holdings Partnerships” or the “Holding Partnerships”). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the four Holding Partnerships may, four times each year, exchange their limited partnership interests (“Partnership Units”) for Blackstone common units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of the Partnership, its wholly owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Consolidated Statements of Cash Flows.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Such estimates include those used in the valuation of investments and financial instruments and the accounting for Goodwill and equity-based compensation. Actual results could differ from those estimates and such differences could be material.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in Blackstone Holdings, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- (a) The entity has all of the attributes of an investment company,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

Blackstone’s other disclosures regarding VIEs are discussed in Note 9. “Variable Interest Entities”.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

*Management and Advisory Fees, Net* — Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees and advisory fees net of management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* — Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* — Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* — Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

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

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

***Level II Valuation Techniques***

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques — Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* — The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* — The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Funds of Hedge Funds* — The investments of consolidated Blackstone Funds in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. In limited circumstances,

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the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value".

*Credit-Focused Investments* — The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* — Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

***Level III Valuation Process***

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee that is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).



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Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" to the Consolidated Financial Statements.

Security and loan transactions are recorded on a trade date basis.

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**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments approximates fair value.

**Cash and Cash Equivalents**

Cash and Cash Equivalents represents cash on hand, cash held in banks, money market funds and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

**Cash Held By Blackstone Funds and Other**

Cash Held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, receivables relating to unsettled sale transactions and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more

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likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally ten to fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

**Comprehensive Income**

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

**Redeemable Non-Controlling Interests in Consolidated Entities**

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified

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period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

**Non-Controlling Interests in Blackstone Holdings**

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

**Compensation and Benefits**

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits — Performance Fee* — Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

**Other Income**

Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds' investments.

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Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

In 2013, Other Income included the amount attributable to the Reversal of the Tax Receivable Agreement Liability. This is income attributable to a change in tax rate as discussed in Note 14. “Income Taxes”.

**Income Taxes**

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership’s share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative and Other expenses within the Consolidated Statements of Operations.

**Net Income (Loss) Per Common Unit**

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to The Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprised primarily of U.S. and non-U.S. government and

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agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Consolidated Statements of Financial Condition.

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to "cover" its short sale in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability ("fair value hedge"), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument ("freestanding derivative"). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction

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and the Partnership's evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair value of the derivative instrument is reflected within Other Assets in the Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

Blackstone's other disclosures regarding derivative financial instruments are discussed in Note 6. "Derivative Financial Instruments".

Blackstone's disclosures regarding offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the consolidated financial statements when declared.

**Recent Accounting Developments**

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance did not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments required an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

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The guidance was effective prospectively for periods beginning after December 15, 2012. Adoption had no impact on the Partnership's financial statements.

In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit's fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Blackstone adopted the guidance on October 1, 2012, the date of annual impairment testing. The amended guidance did not have a material impact on the Partnership's financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance was effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments were limited to disclosure only, adoption did not have a material impact on the Partnership's financial statements.

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarified that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (a) offset, or (b) subject to a master netting agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure



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obligations from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In March 2013, the FASB issued guidance on a parent entity's accounting for cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a parent entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity, any related portion of the total cumulative translation adjustment should be released into net income if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, partial sale guidance applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. For an equity method investment that is not a foreign entity, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance shall be applied on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. Adoption did not have a material impact on the Partnership's financial statements.

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption did not have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of

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specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption did not have a material impact on the Partnership's financial statements.

In June 2014, the FASB issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract.

The amended guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. The guidance may have a material impact on Blackstone's consolidated financial statements if it is determined that both performance fees and carried interest are forms of variable consideration that may not be included in the transaction price. This may significantly delay the recognition of carried interest income and performance fees.

In June 2014, the FASB issued amended guidance on transfers and servicing. Under the amended guidance, repurchase transactions previously accounted for as sales should be accounted for as secured borrowings. There are additional disclosures relating to repurchase agreements, secured lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings including a disaggregation of the gross obligations by the class of collateral pledged, the remaining contractual tenor of the agreements and a discussion of the potential risks associated with the agreements and the related collateral pledged.

The guidance is effective for the first interim or annual period beginning after December 15, 2014. Earlier application is prohibited. The amended guidance is not expected to have a material impact on Blackstone's financial statements.

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. When this measurement alternative is not elected, the amendments clarify that the fair value of financial assets and financial liabilities should be measured in accordance with existing fair value guidance and any

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difference in the fair value of financial assets and financial liabilities should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The guidance is expected to impact the measurement of the financial assets or financial liabilities of Blackstone’s consolidated collateralized loan obligation vehicles and have a material impact on the recognition of appropriated partners’ capital. However, the impact on net income attributable to The Blackstone Group L.P. is not expected to be material.

In February 2015, the FASB issued amended guidance on consolidation. The amended guidance modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. The amended guidance simplifies current consolidation rules by (a) reducing the number of consolidation models, (b) eliminating the risk that a reporting entity may have to consolidate a legal entity solely based on a fee arrangement with another legal entity, (c) placing more weight on the risk of loss in order to identify the party that has a controlling financial interest, (d) reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest, and changing rules for companies in certain industries that ordinarily employ limited partnership or VIE structures. The amended guidance is effective for public entities for interim and annual periods beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Partnership is evaluating the impact on its consolidated financial statements.

3. GOODWILL AND INTANGIBLE ASSETS

Goodwill has been allocated to each of the Partnership’s five segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), Credit (\$346.4 million) and Financial Advisory (\$68.9 million).

The carrying value of goodwill was \$1.8 billion as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the Partnership determined there was no evidence of Goodwill impairment.

Intangible Assets, Net consists of the following:

	December 31,	
	2014	2013
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,464,017	\$ 1,594,128
Accumulated Amortization	(1,005,184)	(1,033,380)
Intangible Assets, Net	<u>\$ 458,833</u>	<u>\$ 560,748</u>

Changes in the Partnership’s Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2014	2013	2012
Balance, Beginning of Year	\$ 560,748	\$598,535	\$ 595,488
Amortization Expense	(101,915)	(95,671)	(139,174)
Acquisitions	—	57,884	142,221
Balance, End of Year	<u>\$ 458,833</u>	<u>\$560,748</u>	<u>\$ 598,535</u>

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Amortization of Intangible Assets held at December 31, 2014 is expected to be \$96.1 million, \$85.6 million, \$46.5 million, \$46.5 million, and \$46.4 million for each of the years ending December 31, 2015, 2016, 2017, 2018 and 2019, respectively. Blackstone’s intangible assets as of December 31, 2014 are expected to amortize over a weighted-average period of 6.9 years.

**4. INVESTMENTS**

Investments consist of the following:

	December 31,	
	2014	2013
Investments of Consolidated Blackstone Funds	\$11,375,407	\$12,521,248
Equity Method Investments	3,240,825	3,309,879
Blackstone’s Treasury Cash Management Strategies	1,666,061	1,104,800
Performance Fees	6,337,045	4,674,792
Other Investments	146,251	118,804
	<u>\$22,765,589</u>	<u>\$21,729,523</u>

Blackstone’s share of Investments of Consolidated Blackstone Funds totaled \$704.9 million and \$487.8 million at December 31, 2014 and December 31, 2013, respectively.

**Investments of Consolidated Blackstone Funds**

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income — Net Gains from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2014	2013	2012
Realized Gains (Losses)	\$143,194	\$205,741	\$ (3,502)
Net Change in Unrealized Gains (Losses)	<u>(20,127)</u>	<u>(26,800)</u>	<u>58,602</u>
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	123,067	178,941	55,100
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	<u>234,787</u>	<u>202,723</u>	<u>201,045</u>
Other Income — Net Gains from Fund Investment Activities	<u>\$357,854</u>	<u>\$381,664</u>	<u>\$256,145</u>

**Equity Method Investments**

Blackstone’s equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended

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December 31, 2014, 2013 and 2012, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”) and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$297.9 million, \$591.9 million and \$199.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The summarized financial information of the Partnership’s equity method investments for December 31, 2014 are as follows:

	December 31, 2014 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$43,005,350	\$59,117,360	\$15,947,483	\$14,611,539	\$ 19,594	\$132,701,326
Other Assets	667,131	3,213,450	1,411,406	1,751,967	53,551	7,097,505
<b>Total Assets</b>	<b>\$43,672,481</b>	<b>\$62,330,810</b>	<b>\$17,358,889</b>	<b>\$16,363,506</b>	<b>\$ 73,145</b>	<b>\$139,798,831</b>
<b>Liabilities and Partners’ Capital</b>						
Debt	\$ 836,667	\$ 3,645,998	\$ 20,550	\$ 1,254,774	\$ —	\$ 5,757,989
Other Liabilities	100,362	617,101	919,013	827,469	24,937	2,488,892
<b>Total Liabilities</b>	<b>937,029</b>	<b>4,263,099</b>	<b>939,563</b>	<b>2,082,243</b>	<b>24,937</b>	<b>8,246,871</b>
Partners’ Capital	42,735,452	58,067,711	16,419,326	14,281,263	48,208	131,551,960
<b>Total Liabilities and Partners’ Capital</b>	<b>\$43,672,481</b>	<b>\$62,330,810</b>	<b>\$17,358,889</b>	<b>\$16,363,506</b>	<b>\$ 73,145</b>	<b>\$139,798,831</b>
<b>Statement of Operations</b>						
Interest Income	\$ 406,255	\$ 260,683	\$ 483	\$ 567,008	\$ 1	\$ 1,234,430
Other Income	21,305	1,030,685	125,441	52,207	118,835	1,348,473
Interest Expense	(61,855)	(89,842)	(271)	(86,957)	(153)	(239,078)
Other Expenses	(97,073)	(249,095)	(103,787)	(177,968)	(71,297)	(699,220)
<b>Net Realized and Unrealized Gain from Investments</b>	<b>8,567,193</b>	<b>10,441,009</b>	<b>547,982</b>	<b>643,080</b>	<b>3,263</b>	<b>20,202,527</b>
<b>Net Income</b>	<b>\$ 8,835,825</b>	<b>\$11,393,440</b>	<b>\$ 569,848</b>	<b>\$ 997,370</b>	<b>\$ 50,649</b>	<b>\$ 21,847,132</b>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone’s segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2013 are as follows:

	December 31, 2013 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$35,516,755	\$57,053,881	\$11,529,163	\$12,150,918	\$ 26,839	\$116,277,556
Other Assets	389,265	3,441,977	1,114,404	2,678,742	128,826	7,753,214
Total Assets	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 1,691,018	\$ 3,013,762	\$ 63,830	\$ 1,165,405	\$ 967	\$ 5,934,982
Other Liabilities	54,909	886,445	689,964	1,131,557	14,222	2,777,097
Total Liabilities	<u>1,745,927</u>	<u>3,900,207</u>	<u>753,794</u>	<u>2,296,962</u>	<u>15,189</u>	<u>8,712,079</u>
Partners' Capital	34,160,093	56,595,651	11,889,773	12,532,698	140,476	115,318,691
Total Liabilities and Partners' Capital	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
<b>Statement of Operations</b>						
Interest Income	\$ 294,171	\$ 140,879	\$ 224	\$ 630,902	\$ 4	\$ 1,066,180
Other Income	10,580	752,184	89,632	30,937	101,214	984,547
Interest Expense	(37,846)	(51,544)	(310)	(68,973)	—	(158,673)
Other Expenses	(88,957)	(108,580)	(71,326)	(105,706)	(65,197)	(439,766)
Net Realized and Unrealized Gain from						
Investments	9,002,197	13,225,141	1,127,173	1,979,078	2,944	25,336,533
Net Income	<u>\$ 9,180,145</u>	<u>\$13,958,080</u>	<u>\$ 1,145,393</u>	<u>\$ 2,466,238</u>	<u>\$ 38,965</u>	<u>\$ 26,788,821</u>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

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The summarized financial information of the Partnership’s equity method investments for December 31, 2012 are as follows:

	December 31, 2012 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$31,308,915	\$40,230,098	\$8,193,041	\$11,066,214	\$ 22,345	\$90,820,613
Other Assets	1,289,961	1,714,990	1,173,627	2,516,388	46,178	6,741,144
Total Assets	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
<b>Liabilities and Partners’ Capital</b>						
Debt	\$ 1,478,929	\$ 1,336,305	\$ 65,103	\$ 1,043,595	\$ 972	\$ 3,924,904
Other Liabilities	91,519	703,412	642,925	1,401,910	20,192	2,859,958
Total Liabilities	<u>1,570,448</u>	<u>2,039,717</u>	<u>708,028</u>	<u>2,445,505</u>	<u>21,164</u>	<u>6,784,862</u>
Partners’ Capital	31,028,428	39,905,371	8,658,640	11,137,097	47,359	90,776,895
Total Liabilities and Partners’ Capital	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
<b>Statement of Operations</b>						
Interest Income	\$ 350,153	\$ 128,624	\$ 194	\$ 712,490	\$ —	\$ 1,191,461
Other Income	13,255	294,105	36,797	7,283	76,809	428,249
Interest Expense	(23,060)	(39,103)	(1,024)	(60,082)	—	(123,269)
Other Expenses	(48,926)	(64,569)	(60,114)	(101,451)	(48,744)	(323,804)
Net Realized and Unrealized Gain (Loss) from Investments	3,916,697	4,979,027	798,892	1,362,351	1,014	11,057,981
Net Income (Loss)	<u>\$ 4,208,119</u>	<u>\$ 5,298,084</u>	<u>\$ 774,745</u>	<u>\$ 1,920,591</u>	<u>\$ 29,079</u>	<u>\$12,230,618</u>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone’s segments.

**Blackstone’s Treasury Cash Management Strategies**

The portion of Blackstone’s Treasury Cash Management Strategies included in Investments represents the Partnership’s liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone’s Treasury Cash Management Strategies:

	Year Ended December 31,		
	2014	2013	2012
Realized Gains (Losses)	\$11,689	\$ (5,793)	\$9,095
Net Change in Unrealized Gains (Losses)	2,002	(9,342)	(502)
	<u>\$13,691</u>	<u>\$(15,135)</u>	<u>\$8,593</u>

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Performance Fees

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2013	\$ 971,860	\$ 3,268,606	\$ 9,468	\$ 424,858	\$ 4,674,792
Performance Fees Allocated as a Result of Changes in Fund					
Fair Values	1,977,029	2,054,558	48,263	182,237	4,262,087
Foreign Exchange Gain	—	(44,893)	—	—	(44,893)
Fund Distributions	(733,305)	(1,556,520)	(42,700)	(222,416)	(2,554,941)
Performance Fees, December 31, 2014	<u>\$2,215,584</u>	<u>\$ 3,721,751</u>	<u>\$ 15,031</u>	<u>\$ 384,679</u>	<u>\$ 6,337,045</u>

Other Investments

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Year Ended December 31,		
	2014	2013	2012
Realized Gains	\$ 5,082	\$13,468	\$ 743
Net Change in Unrealized Gains (Losses)	(6,309)	(6,758)	(371)
	<u>\$(1,227)</u>	<u>\$ 6,710</u>	<u>\$ 372</u>

5. NET ASSET VALUE AS FAIR VALUE

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2014 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 183,719	\$ 1,415	(a)	(a)
Credit Driven	333,674	—	(b)	(b)
Event Driven	191,704	—	(c)	(c)
Equity	360,132	—	(d)	(d)
Commodities	65,529	—	(e)	(e)
Private Equity	89,561	—	(f)	(f)
	<u>\$1,224,319</u>	<u>\$ 1,415</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 80% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 14% of the fair value of the investments in this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction



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may lapse cannot be estimated. The remaining 6% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side-pocket 8% of Blackstone's investments in this category.

- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 69% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 30% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 1% of the total fair value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket any of Blackstone's investments in this category.
- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 95% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 5% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (f) The Private Equity category includes investments in private equity funds that primarily invest in private equity, revenue interests and other private investments. Withdrawals are not permitted for investments in this category.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Fair Value Hedges**

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were previously used to hedge a portion of the interest rate risk on the Partnership's fixed rate borrowings. The impact to the Consolidated Statements of Operations for the period up through the date of de-designation is reflected within "Fair Value Hedges" in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

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**Net Investment Hedges**

To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone’s net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone’s non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone’s net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment. For the year ended December 31, 2014 the resulting gain was \$0.5 million.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	December 31, 2014				December 31, 2013			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ 62,078	\$ 523	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Freestanding Derivatives</b>								
Blackstone — Other								
Interest Rate Contracts	223,886	407	879,412	4,590	1,994,276	8,521	1,083,140	2,676
Foreign Currency Contracts	192,163	2,798	148,873	681	166,066	1,480	163,787	1,015
Total Return Swaps	—	—	—	—	326,929	342	—	—
Credit Default Swaps	19,500	85	56,000	868	—	—	10,000	591
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	199,364	8,915	250,244	21,875	396,569	30,830	239,037	10,018
Interest Rate Contracts	22,659	2,281	—	—	62,193	3,726	—	—
Credit Default Swaps	—	—	91,372	2,514	—	—	—	—
	<u>657,572</u>	<u>14,486</u>	<u>1,425,901</u>	<u>30,528</u>	<u>2,946,033</u>	<u>44,899</u>	<u>1,495,964</u>	<u>14,300</u>
Total	<u>\$719,650</u>	<u>\$15,009</u>	<u>\$1,425,901</u>	<u>\$30,528</u>	<u>\$2,946,033</u>	<u>\$44,899</u>	<u>\$1,495,964</u>	<u>\$14,300</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The table below summarizes the impact to the Consolidated Statements of Operations from derivative financial instruments:

	Year Ended December 31,		
	2014	2013	2012
<b>Fair Value Hedges — Interest Rate Swaps</b>			
Hedge Ineffectiveness	\$ —	\$ —	\$ 548
Excluded from Assessment of Effectiveness	\$ —	\$ —	\$ (938)
Realized Gain	\$ —	\$ —	\$22,941
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$ (1,012)	\$34,206	\$ (2,752)
Foreign Currency Contracts	8,251	4,022	(3,816)
Credit Default Swaps	1,363	752	(1)
Total	<u>\$ 8,602</u>	<u>\$38,980</u>	<u>\$ (6,569)</u>
Net Change in Unrealized Gains (Losses)			
Interest Rate Contracts	\$ (7,757)	\$ (1,947)	\$12,134
Foreign Currency Contracts	(31,728)	2,636	(5,523)
Other	5,193	392	—
Total	<u>\$(34,292)</u>	<u>\$ 1,081</u>	<u>\$ 6,611</u>

Since the inception of the above mentioned fair value hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment is being accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2014, 2013 and 2012, the Partnership had not designated any derivatives as cash flow hedges.

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

7. FAIR VALUE OPTION

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

	December 31,	
	2014	2013
<b>Assets</b>		
Loans and Receivables	\$ 40,397	\$ 137,788
Equity and Preferred Securities	102,907	88,568
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,279,592	8,466,889
Corporate Bonds	292,690	161,382
Other	44,513	41,061
	<u>\$6,760,099</u>	<u>\$8,895,688</u>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$6,448,352	\$8,302,572
Subordinated Notes	348,752	610,435
	<u>\$6,797,104</u>	<u>\$8,913,007</u>

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

	Year Ended December 31,					
	2014		2013		2012	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ (1,703)	\$ (3,022)	\$ 43	\$ (1,101)	\$ (308)	\$ (375)
Equity and Preferred Securities	(2,038)	6,885	(2,833)	7,273	(353)	500
Assets of Consolidated CLO Vehicles						
Corporate Loans	(77,041)	(28,054)	37,464	172,968	(35,428)	554,628
Corporate Bonds	(1,405)	(7,931)	4,510	(5,058)	393	13,264
Other	22,625	17,649	2,647	(476)	2,425	11,889
	<u>\$(59,562)</u>	<u>\$ (14,473)</u>	<u>\$41,831</u>	<u>\$ 173,606</u>	<u>\$(33,271)</u>	<u>\$ 579,906</u>
<b>Liabilities</b>						
Liabilities of Consolidated CLO Vehicles						
Senior Secured Notes	\$ (6,626)	\$ (133,274)	\$ (6,078)	\$ (485,655)	\$ 17	\$ (603,250)
Subordinated Notes	—	108,611	—	96,991	—	(69,141)
	<u>\$ (6,626)</u>	<u>\$ (24,663)</u>	<u>\$ (6,078)</u>	<u>\$ (388,664)</u>	<u>\$ 17</u>	<u>\$ (672,391)</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table presents information for those financial instruments for which the fair value option was elected:

	December 31, 2014			December 31, 2013		
	For Financial Assets Past Due (a)		Excess (Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)		Excess (Deficiency) of Fair Value Over Principal
	Fair Value	Excess (Deficiency) of Fair Value Over Principal		Fair Value	Excess (Deficiency) of Fair Value Over Principal	
Loans and Receivables	\$ —	\$ —	\$ (5,323)	\$ —	\$ —	\$ (533)
Assets of Consolidated CLO Vehicles						
Corporate Loans	4,369	(21,876)	(197,580)	57,837	(176,379)	(281,254)
Corporate Bonds	—	—	(7,814)	—	—	(1,789)
	<u>\$4,369</u>	<u>\$ (21,876)</u>	<u>\$ (210,717)</u>	<u>\$57,837</u>	<u>\$ (176,379)</u>	<u>\$ (283,576)</u>

(a) Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2014 and 2013, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of December 31, 2014, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

## THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

## 8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy:

	December 31, 2014			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ —	\$1,103,210	\$ 1,103,210
Equity Securities	58,934	114,115	179,311	352,360
Partnership and LLC Interests	—	187,140	1,496,422	1,683,562
Debt Instruments	—	1,502,314	105,970	1,608,284
Assets of Consolidated CLO Vehicles				
Corporate Loans	—	5,691,517	588,075	6,279,592
Corporate Bonds	—	292,690	—	292,690
Freestanding Derivatives — Foreign Currency Contracts	—	8,915	—	8,915
Freestanding Derivatives — Interest Rate Contracts	—	2,281	—	2,281
Other	13	19,455	25,045	44,513
Total Investments of Consolidated Blackstone Funds	<u>58,947</u>	<u>7,818,427</u>	<u>3,498,033</u>	<u>11,375,407</u>
Blackstone's Treasury Cash Management Strategies				
Investment Funds	307,111	—	—	307,111
Equity Securities	71,746	—	—	71,746
Debt Instruments	—	1,141,301	84,894	1,226,195
Other	—	50,850	10,159	61,009
Total Blackstone's Treasury Cash Management Strategies	<u>378,857</u>	<u>1,192,151</u>	<u>95,053</u>	<u>1,666,061</u>
Money Market Funds	198,278	—	—	198,278
Net Investment Hedges — Foreign Currency Contracts	—	523	—	523
Freestanding Derivatives				
Interest Rate Contracts	263	144	—	407
Foreign Currency Contracts	—	2,798	—	2,798
Credit Default Swaps	—	85	—	85
Loans and Receivables	—	—	40,397	40,397
Other Investments	31,731	7,310	107,210	146,251
	<u>\$668,076</u>	<u>\$9,021,438</u>	<u>\$3,740,693</u>	<u>\$13,430,207</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$6,448,352	\$ 6,448,352
Subordinated Notes	—	—	348,752	348,752
Freestanding Derivatives — Foreign Currency Contracts	—	21,875	—	21,875
Freestanding Derivatives — Credit Default Swaps	—	2,514	—	2,514
Freestanding Derivatives				
Interest Rate Contracts	1,357	3,233	—	4,590
Foreign Currency Contracts	—	681	—	681
Credit Default Swaps	—	868	—	868
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
	<u>\$ 1,357</u>	<u>\$ 115,049</u>	<u>\$6,797,104</u>	<u>\$ 6,913,510</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2013			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ —	\$ 897,843	\$ 897,843
Equity Securities	51,147	130,816	193,699	375,662
Partnership and LLC Interests	—	88,555	1,254,903	1,343,458
Debt Instruments	—	1,154,902	45,495	1,200,397
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,537,661	929,228	8,466,889
Corporate Bonds	—	161,382	—	161,382
Freestanding Derivatives — Foreign Currency Contracts	—	30,830	—	30,830
Freestanding Derivatives — Interest Rate Contracts	—	3,726	—	3,726
Other	3,477	—	37,584	41,061
Total Investments of Consolidated Blackstone Funds	<u>54,624</u>	<u>9,107,872</u>	<u>3,358,752</u>	<u>12,521,248</u>
Blackstone's Treasury Cash Management Strategies				
Investment Funds	19,629	—	—	19,629
Debt Instruments	—	1,041,039	34,010	1,075,049
Other	—	—	10,122	10,122
Total Blackstone's Treasury Cash Management Strategies	19,629	1,041,039	44,132	1,104,800
Money Market Funds	173,781	—	—	173,781
Freestanding Derivatives				
Interest Rate Contracts	7,423	1,098	—	8,521
Foreign Currency Contracts	—	1,480	—	1,480
Total Return Swaps	—	342	—	342
Loans and Receivables	—	—	137,788	137,788
Other Investments	87,068	17,270	14,466	118,804
	<u>\$342,525</u>	<u>\$10,169,101</u>	<u>\$3,555,138</u>	<u>\$14,066,764</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$8,302,572	\$ 8,302,572
Subordinated Notes	—	—	610,435	610,435
Freestanding Derivatives — Foreign Currency Contracts	—	10,018	—	10,018
Freestanding Derivatives				
Interest Rate Contracts	2,484	192	—	2,676
Foreign Currency Contracts	—	1,015	—	1,015
Credit Default Swaps	—	591	—	591
Securities Sold, Not Yet Purchased	—	76,195	—	76,195
	<u>\$ 2,484</u>	<u>\$ 88,011</u>	<u>\$8,913,007</u>	<u>\$ 9,003,502</u>

(a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of December 31, 2014 and 2013, respectively:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Transfers from Level I into Level II (a)	\$ 1,639	\$ 28,670
Transfers from Level II into Level I (b)	\$ 23,758	\$ 1,308

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.



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**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2014:

Financial Assets	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 1,103,210	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	106,727	Discounted Cash Flows	Discount Rate	8.4% - 24.7%	11.8%
			Revenue CAGR	0.7% - 24.4%	7.1%
			Exit Multiple - EBITDA	5.0x - 13.0x	10.1x
			Exit Multiple - P/E	10.5x - 17.0x	11.2x
	67,706	Transaction Price	N/A	N/A	N/A
	163	Market Comparable Companies	EBITDA Multiple	6.7x - 7.6x	6.9x
	45	Third Party Pricing	N/A	N/A	N/A
	4,670	Other	N/A	N/A	N/A
Partnership and LLC Interests	485,748	Discounted Cash Flows	Discount Rate	4.4% - 21.5%	9.5%
			Revenue CAGR	-4.4% - 41.7%	6.5%
			Exit Multiple - EBITDA	1.0x - 19.1x	9.7x
			Exit Capitalization Rate	2.0% - 19.1%	6.8%
	996,199	Transaction Price	N/A	N/A	N/A
	13,793	Third Party Pricing	N/A	N/A	N/A
	682	Other	N/A	N/A	N/A
Debt Instruments	9,570	Discounted Cash Flows	Discount Rate	8.8% - 24.7%	16.1%
			Revenue CAGR	4.7% - 6.8%	5.0%
			Exit Multiple - EBITDA	5.9x - 11.3x	11.0x
			Exit Capitalization Rate	1.0% - 12.4%	9.3%
			Default Rate	2%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20%	N/A
			Reinvestment Rate	LIBOR +	N/A
				400 bps	
	95,542	Third Party Pricing	N/A	N/A	N/A
	686	Transaction Price	N/A	N/A	N/A
	172	Market Comparable Companies	EBITDA Multiple	6.6x - 7.9x	6.6x
Assets of Consolidated CLO Vehicles	318,636	Third Party Pricing	N/A	N/A	N/A
	290,658	Market Comparable Companies	EBITDA Multiple	3.8x - 15.0x	6.1x
	3,826	Discounted Cash Flows	Discount Rate	8.0%	N/A
Total Investments of Consolidated Blackstone Funds	3,498,033				

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**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 26,167	Discounted Cash Flows	Default Rate	1.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	30.0%	N/A
			Reinvestment Rate	LIBOR + 450 bps	N/A
			Discount Rate	5.8% - 10.0%	7.2%
			54,257	Third Party Pricing	N/A
Loans and Receivables	10,159	NAV as Fair Value	N/A	N/A	N/A
	4,470	Transaction Price	N/A	N/A	N/A
	26,247	Discounted Cash Flows	Discount Rate	10.5% - 12.2%	10.9%
Other Investments	11,887	Transaction Price	N/A	N/A	N/A
	2,719	NAV as Fair Value	N/A	N/A	N/A
Other Investments	92,604	Discounted Cash Flows	Discount Rate	1.3% - 12.5%	2.9%
			Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
Total	<u>\$ 3,740,693</u>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<u>\$ 6,797,104</u>	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.3% - 19.3%	2.3%
			Reinvestment Rate	LIBOR + 400 bps	N/A

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
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The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2013:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 897,843	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	112,117	Discounted Cash Flows	Discount Rate	9.2% - 26.3%	12.4%
			Revenue CAGR	0.9% - 46.2%	6.8%
			Exit Multiple - EBITDA	5.0x - 14.0x	8.9x
			Exit Multiple - P/E	8.5x - 17.0x	9.8x
	78,154	Transaction Price	N/A	N/A	N/A
	275	Market Comparable Companies	EBITDA Multiple	6.3x - 7.5x	6.9x
	50	Third Party Pricing	N/A	N/A	N/A
	3,103	Other	N/A	N/A	N/A
Partnership and LLC Interests	557,534	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	9.0%
			Revenue CAGR	-0.7% - 17.7%	5.5%
			Exit Multiple - EBITDA	3.0x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	687,246	Transaction Price	N/A	N/A	N/A
	9,181	Third Party Pricing	N/A	N/A	N/A
	942	Other	N/A	N/A	N/A
Debt Instruments	11,814	Discounted Cash Flows	Discount Rate	10.7% - 21.0%	19.2%
			Revenue CAGR	4.8% - 5.5%	4.8%
			Exit Multiple - EBITDA	5.8x - 11.1x	10.8x
			Exit Capitalization Rate	6.4% - 7.5%	6.7%
			Default Rate	2.0%	N/A
			Recovery Rate	67.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	31,675	Third Party Pricing	N/A	N/A	N/A
	1,772	Transaction Price	N/A	N/A	N/A
	234	Market Comparable Companies	EBITDA Multiple	6.2x - 8.0x	6.2x
Assets of Consolidated CLO Vehicles	615,414	Third Party Pricing	N/A	N/A	N/A
	293,382	Market Comparable Companies	EBITDA Multiple	3.5x - 11.3x	7.3x
	57,936	Discounted Cash Flows	Discount Rate	7.0% - 14.0%	7.8%
			Revenue CAGR	4.2%	N/A
			Exit Multiple - EBITDA	8.0x	N/A
	80	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,358,752				

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**Notes to Consolidated Financial Statements—Continued**  
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	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 17,040	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
			Discount Rate	6.0% - 8.6%	6.6%
	16,993	Third Party Pricing	N/A	N/A	N/A
	10,099	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	137,788	Discounted Cash Flows	Discount Rate	11.0% - 14.8%	12.6%
Other Investments	7,927	Transaction Price	N/A	N/A	N/A
	3,725	NAV as Fair Value	N/A	N/A	N/A
	2,814	Discounted Cash Flows	Discount Rate	12.5%	N/A
Total	<u>\$ 3,555,138</u>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<u>\$ 8,913,007</u>	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	0.4% - 24.2%	2.6%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A	Not applicable.
CAGR	Compound annual growth rate.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
Exit Multiple	Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.
(a)	Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the Blackstone's Treasury Cash Management Strategies, debt instruments, other investments and liabilities of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

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Since December 31, 2012, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value							
	2014				2013			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466
Transfer In Due to Consolidation and								
Acquisition (a)	276,806	—	—	276,806	673,031	—	11,960	684,991
Transfer Out Due to Deconsolidation	(335,357)	—	—	(335,357)	(284,960)	—	—	(284,960)
Transfer In to Level III (b)	570,902	—	32,681	603,583	624,450	—	12,627	637,077
Transfer Out of Level III (b)	(358,406)	—	(48,282)	(406,688)	(481,637)	—	(9,241)	(490,878)
Purchases	1,125,697	192,568	193,369	1,511,634	733,356	370,508	129,122	1,232,986
Sales	(1,299,608)	(284,920)	(18,346)	(1,602,874)	(1,249,271)	(265,996)	(112,833)	(1,628,100)
Settlements	—	(1,171)	(522)	(1,693)	—	2,312	(1,958)	354
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	159,247	(3,868)	(15,235)	140,144	326,084	301	817	327,202
Balance, End of Period	<u>\$ 3,498,033</u>	<u>\$ 40,397</u>	<u>\$ 202,263</u>	<u>\$ 3,740,693</u>	<u>\$ 3,358,752</u>	<u>\$ 137,788</u>	<u>\$ 58,598</u>	<u>\$ 3,555,138</u>
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	<u>\$ 58,563</u>	<u>\$ (4,048)</u>	<u>\$ (2,012)</u>	<u>\$ 52,503</u>	<u>\$ 261,403</u>	<u>\$ 258</u>	<u>\$ (13,117)</u>	<u>\$ 248,544</u>

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	Level III Financial Liabilities at Fair Value Year Ended December 31,					
	2014			2013		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ 8,302,572	\$ 610,435	\$ 8,913,007	\$10,695,136	\$ 846,471	\$11,541,607
Transfer In Due to Consolidation and Acquisition (a)	1,990,703	144,107	2,134,810	—	—	—
Transfer Out Due to Deconsolidation	(2,231,852)	(277,302)	(2,509,154)	(1,100,842)	(150,925)	(1,251,767)
Issuances	557,780	10,000	567,780	41,233	784	42,017
Settlements	(1,807,845)	(703)	(1,808,548)	(2,034,367)	(530)	(2,034,897)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	(363,006)	(137,785)	(500,791)	701,412	(85,365)	616,047
Balance, End of Period	<u>\$ 6,448,352</u>	<u>\$ 348,752</u>	<u>\$ 6,797,104</u>	<u>\$ 8,302,572</u>	<u>\$ 610,435</u>	<u>\$ 8,913,007</u>
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	<u>\$ 127,011</u>	<u>\$ (79,423)</u>	<u>\$ 47,588</u>	<u>\$ 695,334</u>	<u>\$ (85,365)</u>	<u>\$ 609,969</u>

- (a) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities, the acquisition of management contracts and the Harbourmaster acquisition.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

**9. VARIABLE INTEREST ENTITIES**

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct

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equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	December 31,	
	2014	2013
Investments	\$ 776,079	\$ 758,304
Accounts Receivable	125,316	166,908
Due from Affiliates	53,751	86,246
Total VIE Assets	955,146	1,011,458
Due to Affiliates	108	397
Accounts Payable, Accrued Expenses and Other Liabilities	124	2
Potential Clawback Obligation	206,725	63,290
Maximum Exposure to Loss	<u>\$1,162,103</u>	<u>\$1,075,147</u>

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At December 31, 2014, the Partnership pledged securities with a carrying value of \$44.8 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2013, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$148.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$148.4 million were used to cover Securities Sold, Not Yet Purchased and Repurchase Agreements. The Partnership also pledged securities with a carrying value of \$316.6 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

**11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other Assets consists of the following:

	December 31,	
	2014	2013
Furniture, Equipment and Leasehold Improvements	\$ 318,672	\$ 325,700
Less: Accumulated Depreciation	(182,932)	(188,612)
Furniture, Equipment and Leasehold Improvements, Net	135,740	137,088
Prepaid Expenses	102,503	61,226
Other Assets	96,501	75,815
Freestanding Derivatives	3,290	10,343
Net Investment Hedges	523	—
	<u>\$ 338,557</u>	<u>\$ 284,472</u>

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Depreciation expense of \$28.6 million, \$33.6 million and \$34.0 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2014, 2013 and 2012, respectively, is included in General, Administrative and Other in the Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$97.8 million and \$57.0 million as of December 31, 2014 and 2013, respectively, relating to redemptions that were legally payable to investors of the consolidated Blackstone Funds of \$591.7 million and \$229.1 million, respectively, of payables relating to unsettled purchases.

12. OFFSETTING OF ASSETS AND LIABILITIES

The following tables present the offsetting of assets and liabilities as of December 31, 2014:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 523	\$ —	\$ —	\$ 523
Freestanding Derivatives	3,290	1,132	352	1,806
Total	<u>\$ 3,813</u>	<u>\$ 1,132</u>	<u>\$ 352</u>	<u>\$ 2,329</u>

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 8,653	\$ 1,132	\$ 7,424	\$ 97
Repurchase Agreements	29,907	29,438	469	—
Total	<u>\$ 38,560</u>	<u>\$ 30,570</u>	<u>\$ 7,893</u>	<u>\$ 97</u>

The following tables present the offsetting of assets and liabilities as of December 31, 2013:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 10,343	\$ 3,025	\$ 582	\$ 6,736
Reverse Repurchase Agreements	148,984	148,394	—	590
Total	<u>\$ 159,327</u>	<u>\$ 151,419</u>	<u>\$ 582</u>	<u>\$ 7,326</u>



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	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 4,282	\$ 3,025	\$ 1,257	\$ —
Repurchase Agreements	316,352	316,352	—	—
Total	<u>\$ 320,634</u>	<u>\$ 319,377</u>	<u>\$ 1,257</u>	<u>\$ —</u>

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. See Note 11. “Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities” for the components of Other Assets.

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Statements of Financial Condition and are not a significant component thereof.

**Notional Pooling Arrangement**

Blackstone has a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of December 31, 2014, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.2 billion, which was fully offset with an accompanying overdraft.

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## 13. BORROWINGS

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected Blackstone Funds. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership's credit facilities consist of the following:

	December 31,					
	2014			2013		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$ 1,100,000	\$ 689	0.88%	\$ 1,100,000	\$ 717	1.25%
Blackstone Issued 6.625% Notes Due 8/15/2019 (b)(f)	585,000	585,000	6.63%	585,000	585,000	6.63%
Blackstone Issued 5.875% Notes Due 3/15/2021 (c)(f)	400,000	400,000	5.88%	400,000	400,000	5.88%
Blackstone Issued 4.750% Notes Due 2/15/2023 (d)(f)	400,000	400,000	4.75%	400,000	400,000	4.75%
Blackstone Issued 6.250% Notes Due 8/15/2042 (d)(f)	250,000	250,000	6.25%	250,000	250,000	6.25%
Blackstone Issued 5.000% Notes Due 6/15/2044 (e)(f)	500,000	500,000	5.00%	—	—	n/a
	3,235,000	2,135,689	5.71%	2,735,000	1,635,717	5.92%
Blackstone Fund Facilities (g)	6,877	6,877	2.53%	13,075	13,075	3.19%
CLO Vehicles (h)	7,519,660	7,334,316	1.27%	9,891,473	9,826,621	1.09%
	<u>\$10,761,537</u>	<u>\$9,476,882</u>	2.27%	<u>\$12,639,548</u>	<u>\$11,475,413</u>	1.78%

- (a) Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly. As of December 31, 2014, there was an outstanding but undrawn letter of credit against the credit facility for \$0.7 million.
- (b) On August 20, 2009, Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, issued \$600 million of senior notes. The notes, which were issued at a discount, accrue interest from August 20, 2009. Interest is paid semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. Interest expense on the notes was \$38.8 million, \$38.8 million and \$39.4 million for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, respectively. The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (c) On September 15, 2010, the Issuer issued \$400 million of senior notes. The notes, which were issued at a discount, accrue interest from September 20, 2010. Interest is payable semiannually in arrears on March 15 and

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- September 15 of each year, commencing on March 15, 2011. Interest expense on the notes was \$23.5 million, \$23.5 million and \$23.5 million for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, respectively.
- (d) On August 17, 2012, the Issuer issued \$400 million of senior notes due February 15, 2023 and \$250 million of senior notes maturing August 15, 2042. The notes, which were issued at a discount, accrue interest from August 17, 2012. Interest is payable semiannually in arrears on February 15 and September 15 of each year, commencing on February 15, 2013. Interest expense on the \$400 million note was \$19.0 million and \$19.0 million for the years ended December 31, 2014 and December 31, 2013, respectively. Interest expense on the \$250 million note was \$15.6 million and \$15.6 million for the years ended December 31, 2014 and December 31, 2013, respectively.
- (e) On April 7, 2014, the Issuer issued \$500 million aggregate principal amount of Senior Notes maturing June 15, 2044 (the “2014 Notes”). The 2014 Notes have an interest rate of 5.000% per annum, accruing from April 7, 2014. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing December 15, 2014. Interest expense on the 2014 Notes was \$18.3 million and \$0.0 million for the years ended December 31, 2014 and December 31, 2013, respectively. The 2014 Notes are unsecured and unsubordinated obligations of the Issuer. The 2014 Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (the “2014 Guarantors”). The guarantees are unsecured and unsubordinated obligations of the 2014 Guarantors. Transaction costs related to the issuance of the 2014 Notes have been capitalized and are being amortized over the life of the 2014 Notes.
- (f) Represents long term borrowings in the form of senior notes (the “Notes”) issued by the Issuer. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings, and the Issuer (the “Guarantors”). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. The indentures include covenants, including limitations on the Issuer’s and the Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indentures also provide for events of default and further provide that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer’s option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase.
- (g) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Because the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only

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for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.

- (h) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition.

The carrying value and fair value of the Blackstone issued notes, included in Loans Payable within the Consolidated Statements of Financial Condition, were:

	December 31,			
	2014		2013	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$625,111	\$684,158	\$632,823	\$684,860
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$398,710	\$462,360	\$398,543	\$447,120
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$393,805	\$436,240	\$393,202	\$415,760
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$239,864	\$307,125	\$239,738	\$278,550
Blackstone Issued 5.000%, \$500 Million Par, Notes Due 6/15/2044	\$493,013	\$527,500	\$ —	\$ —

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.  
(b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	December 31,					
	2014			2013		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$6,594,266	1.27%	3.8	\$8,605,553	1.09%	4.1
Subordinated Notes	740,050(a)		N/A	1,221,068(a)		N/A
	<u>\$7,334,316</u>			<u>\$9,826,621</u>		

- (a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	December 31,					
	2014			2013		
	Fair Value	Amounts Due to Non-Consolidated Affiliates		Fair Value	Amounts Due to Non-Consolidated Affiliates	
	Borrowing Outstanding	Fair Value	Borrowing Outstanding	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$6,448,352	\$ 2,500	\$ 2,504	\$8,302,572	\$ 14,500	\$ 13,732
Subordinated Notes	\$ 348,752	\$ 24,200	\$14,377	\$ 610,435	\$ 224,444	\$110,197

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of December 31, 2014 and 2013, the fair value of the consolidated CLO assets was \$8.0 billion and \$9.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2014.

Scheduled principal payments for borrowings at December 31, 2014 are as follows:

	Blackstone Fund		
	Operating Borrowings	Facilities / CLO Vehicles	Total Borrowings
2015	\$ —	\$ —	\$ —
2016	—	6,877	6,877
2017	—	488,508	488,508
2018	—	—	—
2019	585,000	—	585,000
Thereafter	1,550,000	6,845,808	8,395,808
<b>Total</b>	<b><u>\$2,135,000</u></b>	<b><u>\$ 7,341,193</u></b>	<b><u>\$ 9,476,193</u></b>

**14. INCOME TAXES**

The Provision for Income Taxes consists of the following:

	Year Ended December 31,		
	2014	2013	2012
<b>Current</b>			
Federal Income Tax	\$135,193	\$ 19,237	\$ 5,928
Foreign Income Tax	24,199	13,302	16,921
State and Local Income Tax	69,281	33,273	36,022
	<u>228,673</u>	<u>65,812</u>	<u>58,871</u>
<b>Deferred</b>			
Federal Income Tax	54,375	157,962	100,875
Foreign Income Tax	(416)	(638)	(691)
State and Local Income Tax	8,541	32,506	25,968
	<u>62,500</u>	<u>189,830</u>	<u>126,152</u>
Provision for Taxes	<u>\$291,173</u>	<u>\$255,642</u>	<u>\$185,023</u>

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The following table summarizes Blackstone’s tax position:

	Year Ended December 31,		
	2014	2013	2012
Income Before Provision for Taxes	\$3,986,726	\$3,148,561	\$1,014,905
Total Provision for Taxes	\$ 291,173	\$ 255,642	\$ 185,023
Effective Income Tax Rate	7.3%	8.1%	18.2%

The following table reconciles the effective income tax rate to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2014	2013	2012
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-28.7%	-28.7%	-23.6%
Interest Expense	-0.5%	-0.9%	-3.4%
Foreign Income Taxes	-0.3%	-0.2%	-3.2%
State and Local Income Taxes	1.5%	1.7%	3.0%
Equity-Based Compensation	1.1%	1.6%	9.3%
Change in Tax Rate	0.0%	0.6%	-0.1%
Net Unrecognized Tax Positions	0.1%	-0.2%	0.7%
Non Deductible Expenses	0.2%	0.0%	0.6%
Tax Deductible Compensation	-0.4%	-0.3%	-0.4%
Other	-0.7%	-0.5%	0.3%
Effective Income Tax Rate (b)	<u>7.3%</u>	<u>8.1%</u>	<u>18.2%</u>

- (a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership’s unitholders and the non-controlling interest holders.
- (b) The effective tax rate is calculated on Income (Loss) Before Provision for Taxes.

In 2013, a subsidiary of the Partnership received Letter Rulings allowing the application of New York State and New York City laws that prescribe the sourcing of income of a registered securities or commodities broker resulting in a reduction to the rate of tax for 2013 and the rate of tax that Blackstone will pay in the future. In 2011, application of the New York State and New York City tax laws that source various types of receipts from services performed by registered brokers and dealers of securities and commodities for purposes of apportioning income resulted in a reduction to Blackstone’s rate of tax for that year and to the rate of tax that Blackstone will pay in subsequent years.

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Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	December 31,	
	2014	2013
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 21,607	\$ 8,728
Equity-Based Compensation	56,783	54,810
Unrealized Gains from Investments	(119,428)	(117,685)
Depreciation and Amortization	1,314,570	1,285,042
Net Operating Loss Carry Forward	—	12
Other	(21,302)	(21,700)
Total Deferred Tax Assets	<u>\$1,252,230</u>	<u>\$1,209,207</u>
<b>Deferred Tax Liabilities</b>		
Depreciation and Amortization	\$ 10	\$ 10
Total Deferred Tax Liabilities	<u>\$ 10</u>	<u>\$ 10</u>

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had a taxable loss of \$56.8 million and \$81.4 million for the years ended December 31, 2011 and 2010, respectively, of which \$8.8 million was carried back and utilized against prior year taxable income, \$74.9 million was utilized against taxable income generated in the tax year ended December 31, 2012 and \$54.6 million was utilized against taxable income generated in the tax year ended December 31, 2013. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance.

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. At this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2014.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax

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regulators. As of December 31, 2014, Blackstone’s U.S. federal income tax returns for the years 2011 through 2013 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service is examining a corporate subsidiary’s 2012 U.S. federal income tax return. State and local tax returns are generally subject to audit from 2010 through 2013. Currently, the State of New York is examining the tax returns filed by a subsidiary for the years 2010 through 2011 and the City of New York is examining certain other subsidiaries’ tax returns for the years 2007 through 2011. The Income Tax Department of the Government of India is examining the tax returns of the Indian subsidiaries for the years 2008 and 2009. Blackstone believes that during 2015 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

Blackstone’s unrecognized tax benefits, excluding related interest and penalties, were:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Unrecognized Tax Benefits — January 1	\$18,862	\$ 30,742
Additions based on Tax Positions Related to Current Year	2,104	6,517
Additions for Tax Positions of Prior Years	4,002	3,435
Reductions for Tax Positions of Prior Years	(2,503)	(17,686)
Settlements	(1,062)	(3,538)
Exchange Rate Fluctuations	(1,567)	(608)
Unrecognized Tax Benefits — December 31	<u>\$19,836</u>	<u>\$ 18,862</u>

If the above tax benefits were recognized, \$19.8 million and \$18.9 million for the years ended December 31, 2014 and 2013, respectively, would reduce the annual effective rate. Blackstone does not believe that it will have a material increase or decrease in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expense. During the year ended December 31, 2014, \$2.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2013, \$1.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2012, \$5.8 million of interest expense and \$0.5 million of penalties were accrued.

On September 13, 2013, the U.S. Treasury Department and the IRS issued final regulations that address costs incurred in acquiring, producing, or improving tangible property (“the tangible property regulations”). The tangible property regulations are generally effective for tax years beginning on or after January 1, 2014, and may be adopted in earlier years. Management does not anticipate the impact of these changes to be material to the Partnership’s consolidated financial condition or results of operations.



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15. NET INCOME (LOSS) PER COMMON UNIT

Basic and diluted net income (loss) per common unit for the years ended December 31, 2014, 2013 and 2012 was calculated as follows:

	Year Ended December 31,		
	2014	2013	2012
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>	<u>\$ 218,598</u>
<b>Basic Net Income Per Common Unit</b>			
Weighted-Average Common Units Outstanding	<u>608,803,111</u>	<u>587,018,828</u>	<u>533,703,606</u>
Basic Net Income Per Common Unit	<u>\$ 2.60</u>	<u>\$ 2.00</u>	<u>\$ 0.41</u>
<b>Diluted Net Income Per Common Unit</b>			
Weighted-Average Common Units Outstanding	608,803,111	587,018,828	533,703,606
Weighted-Average Unvested Deferred Restricted Common Units	<u>4,373,294</u>	<u>3,527,812</u>	<u>4,965,464</u>
Weighted-Average Diluted Common Units Outstanding	<u>613,176,405</u>	<u>590,546,640</u>	<u>538,669,070</u>
Diluted Net Income Per Common Unit	<u>\$ 2.58</u>	<u>\$ 1.98</u>	<u>\$ 0.41</u>
<b>Distributions Declared Per Common Unit (a)</b>	<u>\$ 1.92</u>	<u>\$ 1.18</u>	<u>\$ 0.52</u>

(a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year.

The following table summarizes the anti-dilutive securities for the periods indicated:

	Year Ended December 31,		
	2014	2013	2012
Weighted-Average Blackstone Holdings Partnership Units	542,553,088	553,579,525	590,446,577

Unit Repurchase Program

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the years ended December 31, 2014, 2013 and 2012, no units were repurchased. As of December 31, 2014, the amount remaining available for repurchases under this program was \$335.8 million.

16. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), the majority of which to date were granted in connection with Blackstone's

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initial public offering (“IPO”). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2014, the Partnership had the ability to grant 164,224,426 units under the Equity Plan.

For the years ended December 31, 2014, 2013 and 2012 the Partnership recorded compensation expense of \$734.7 million, \$855.1 million, and \$949.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$23.1 million, \$33.3 million, and \$25.0 million, respectively.

As of December 31, 2014, there was \$710.6 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.4 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,158,741,134 as of December 31, 2014.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2014 and of changes during the period January 1, 2014 through December 31, 2014 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
Deferred Restricted Common Units			Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value	
<b>Unvested Units</b>						
Balance, December 31, 2013	48,057,816	\$ 26.64	20,004,139	\$ 15.57	147,169	\$ 12.00
Granted	6,071,140	33.17	2,253,591	30.73	461	28.05
Vested	(19,115,193)	29.46	(3,783,459)	18.35	(144,526)	11.71
Forfeited	(447,276)	17.83	(904,899)	15.02	(1,649)	32.09
Cancelled	(1,068,250)	31.00	—	—	—	—
Balance, December 31, 2014	<u>33,498,237</u>	\$ 26.19	<u>17,569,372</u>	\$ 16.95	<u>1,455</u>	\$ 31.95

Units Expected to Vest

The following unvested units, after expected forfeitures, as of December 31, 2014, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	31,398,029	1.80
Deferred Restricted Blackstone Common Units	15,287,617	1.80
Total Equity-Based Awards	<u>46,685,646</u>	<u>1.80</u>
Phantom Units	<u>1,293</u>	<u>0.90</u>

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**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisers and phantom units (cash settled equity-based awards) to other senior and non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's common units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from one to nine years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 12.1% annually by employee class, and a per unit discount, ranging from \$0.01 to \$7.54. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

The phantom units vest over the assumed service period, which ranges from 3 to 4 years. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 4.4% to 12.1% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$1.1 million, \$0.6 million and \$0.4 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2014, 2013 and 2012, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to 8 years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has accounted for the unvested Blackstone Holdings Partnership Units as compensation expense over the vesting period. The fair values have been derived based on the closing price of Blackstone's common units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone common unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 12.1%, based on historical experience.

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$90.7 million.

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**Notes to Consolidated Financial Statements—Continued**  
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**17. RELATED PARTY TRANSACTIONS**

**Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	December 31,	
	2014	2013
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 2,518	\$ 1,561
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	237,341	151,493
Amounts Due from Portfolio Companies and Funds	372,820	307,926
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	32,020	259,787
Management and Performance Fees Due from Non-Consolidated Funds	355,657	325,389
Payments Made on Behalf of Non-Consolidated Entities	111,796	133,790
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	16,256	12,098
	<u>\$1,128,408</u>	<u>\$1,192,044</u>
	December 31,	
	2014	2013
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$1,234,890	\$1,235,168
Accrual for Potential Repayment of Previously Received Performance Fees	3,889	4,270
Due to Note Holders of Consolidated CLO Vehicles	16,881	123,929
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	21,266	11,293
Payable to Affiliates for Consolidated Funds	22,447	29,803
Distributions Received on Behalf of Blackstone Entities	176,304	22,815
Payments Made by Non-Consolidated Entities	14,411	9,581
	<u>\$1,490,088</u>	<u>\$1,436,859</u>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of December 31, 2014 and 2013, such investments aggregated \$1.0 billion and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$176.0 million, \$224.7 million and \$114.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$327.1 million, \$253.9 million and \$254.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$2.9 million, \$3.4 million and \$4.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2014. See Note 18. "Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)".

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman and an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone (each such aircraft, "Personal Aircraft"). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with its operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates.

In addition, on occasion, certain of Blackstone's executive officers and their families may make use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Any such personal use of Blackstone assets is charged to the executive officer based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone at market rates.

The transactions described herein are not material to the Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly owned subsidiaries would otherwise be required to pay in the future.

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One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

During the fourth quarter of 2013 and 2011, the effective tax rate of the corporate taxpayers was reduced due to the adoption of New York State and New York City tax laws for sourcing of revenue for apportionment purposes. This resulted in a reduction of \$20.5 million and \$197.8 million, respectively, due to pre-IPO owners and the others mentioned above. Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$413.7 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. On September 30, 2014, payments totaling \$6.2 million were made to certain pre-IPO owners and the others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2008 and 2010 taxable years. Subsequent to December 31, 2014, payments totaling \$82.8 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreements and related tax benefits the Partnership received for the 2013 taxable year.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the reporting date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Consolidated Statements of Cash Flows.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

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**18. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2032. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2014, 2013 and 2012, was \$97.2 million, \$78.6 million and \$74.8 million, respectively. At December 31, 2014 and 2013, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$8.5 million and \$9.0 million, respectively. As of December 31, 2014, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2015	\$ 71,589
2016	65,449
2017	59,811
2018	56,443
2019	55,685
Thereafter	491,849
<b>Total</b>	<b><u>\$800,826</u></b>

*Investment Commitments*

Blackstone had \$1.4 billion of investment commitments as of December 31, 2014 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$45.8 million as of December 31, 2014 which includes \$27.7 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies**

*Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$9.1 million as of December 31, 2014.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of December 31, 2014 was \$88.8 million.

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*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The following table presents the clawback obligations by segment:

Segment	December 31,					
	2014			2013		
	Blackstone	Current and Former Personnel		Blackstone	Current and Former Personnel	
Holdings	Holdings	Former Personnel	Total	Holdings	Former Personnel	Total
Private Equity	\$ —	\$ —	\$ —	\$ (5)	\$ 151	\$ 146
Real Estate	130	1,647	1,777	1,501	518	2,019
Credit	1,241	871	2,112	1,213	892	2,105
Total	<u>\$ 1,371</u>	<u>\$ 2,518</u>	<u>\$3,889</u>	<u>\$ 2,709</u>	<u>\$ 1,561</u>	<u>\$4,270</u>

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2014, \$459.1 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**19. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain administrative employees who are eligible for participation in the Plan, the Partnership makes a non-elective contribution of 2% of such employee's annual compensation up to a maximum of one thousand six hundred dollars regardless of whether the employee makes any elective contributions to the Plan. In addition, the Partnership will also contribute 50% of certain eligible employee's contribution to the Plan with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2014, 2013 and 2012, the Partnership incurred expenses of \$1.9 million, \$1.7 million and \$1.5 million in connection with such Plan.



**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom (“U.K. Plan”). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee’s annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2014, 2013 and 2012, the Partnership incurred expenses of \$0.7 million, \$0.4 million and \$0.4 million, respectively, in connection with the U.K. Plan.

**20. REGULATED ENTITIES**

The Partnership has certain entities that are registered broker-dealers that are subject to the minimum net capital requirements of the United States Securities and Exchange Commission (“SEC”). These entities have continuously operated in excess of these requirements. The Partnership also has certain entities based in London, Hong Kong and Ireland, which are subject to the capital requirements of the Financial Conduct Authority, the Securities & Future Commission and the Central Bank of Ireland, respectively. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities that are registered as investment advisers with the SEC.

The regulatory capital requirements referred to above may restrict the Partnership’s ability to withdraw capital from its entities. At December 31, 2014, \$27.7 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**21. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management and financial advisory businesses through five segments:

- Private Equity — Blackstone’s Private Equity segment comprises its management of private equity funds, certain multi-asset class investment funds and secondary private funds of funds.
- Real Estate — Blackstone’s Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Hedge Fund Solutions — Blackstone’s Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (“BAAM”), an institutional solutions provider utilizing hedge funds across a variety of strategies.
- Credit — Blackstone’s Credit segment, which principally includes GSO Capital Partners LP (“GSO”), manages credit-focused products within private debt and public market strategies. GSO’s products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.
- Financial Advisory — Blackstone’s Financial Advisory segment comprises its financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Income (“EI”) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone’s IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income (“ENI”) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Management makes operating decisions and assesses the performance of each of Blackstone’s business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table presents the financial data for Blackstone’s five segments as of and for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 415,841	\$ 628,502	\$ 482,981	\$ 460,205	\$ —	\$ 1,987,529
Advisory Fees	—	—	—	—	420,845	420,845
Transaction and Other Fees, Net	134,642	91,610	569	18,161	1,455	246,437
Management Fee Offsets	(19,146)	(34,443)	(5,014)	(28,168)	—	(86,771)
Total Management and Advisory Fees, Net	531,337	685,669	478,536	450,198	422,300	2,568,040
Performance Fees						
Realized						
Carried Interest	754,402	1,487,762	—	208,432	—	2,450,596
Incentive Fees	—	11,499	140,529	109,717	—	261,745
Unrealized						
Carried Interest	1,222,828	524,046	—	(37,913)	—	1,708,961
Incentive Fees	—	(5,521)	(879)	(23,025)	—	(29,425)
Total Performance Fees	1,977,230	2,017,786	139,650	257,211	—	4,391,877
Investment Income (Loss)						
Realized						
Realized	202,719	309,095	21,550	9,354	707	543,425
Unrealized	(23,914)	(58,930)	5,132	5,055	860	(71,797)
Total Investment Income	178,805	250,165	26,682	14,409	1,567	471,628
Interest and Dividend Revenue	21,983	30,197	11,114	23,040	10,010	96,344
Other	6,569	2,863	1,855	(2,310)	428	9,405
Total Revenues	2,715,924	2,986,680	657,837	742,548	434,305	7,537,294
<b>Expenses</b>						
Compensation and Benefits						
Compensation						
Compensation	276,447	326,317	131,658	188,200	230,889	1,153,511
Performance Fee Compensation						
Realized						
Carried Interest	266,393	432,996	—	116,254	—	815,643
Incentive Fees	—	5,980	42,451	61,668	—	110,099
Unrealized						
Carried Interest	210,446	197,174	—	(28,583)	—	379,037
Incentive Fees	—	(2,751)	(273)	(16,252)	—	(19,276)
Total Compensation and Benefits	753,286	959,716	173,836	321,287	230,889	2,439,014
Other Operating Expenses	142,898	146,083	86,129	90,524	88,148	553,782
Total Expenses	896,184	1,105,799	259,965	411,811	319,037	2,992,796
Economic Income	\$1,819,740	\$1,880,881	\$ 397,872	\$ 330,737	\$115,268	\$ 4,544,498
Segment Assets	\$6,135,072	\$8,032,854	\$1,472,992	\$2,592,313	\$866,392	\$19,099,623

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2013 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 368,146	\$ 565,182	\$ 409,321	\$ 398,158	\$ —	\$ 1,740,807
Advisory Fees	—	—	—	—	410,514	410,514
Transaction and Other Fees, Net	96,988	79,675	623	28,586	1,105	206,977
Management Fee Offsets	(5,683)	(22,821)	(3,387)	(40,329)	—	(72,220)
Total Management and Advisory Fees, Net	<u>459,451</u>	<u>622,036</u>	<u>406,557</u>	<u>386,415</u>	<u>411,619</u>	<u>2,286,078</u>
Performance Fees						
Realized						
Carried Interest	329,993	486,773	—	127,192	—	943,958
Incentive Fees	—	45,862	207,735	220,736	—	474,333
Unrealized						
Carried Interest	398,232	1,651,700	—	108,078	—	2,158,010
Incentive Fees	—	(28,753)	7,718	1,107	—	(19,928)
Total Performance Fees	<u>728,225</u>	<u>2,155,582</u>	<u>215,453</u>	<u>457,113</u>	<u>—</u>	<u>3,556,373</u>
Investment Income (Loss)						
Realized						
Carried Interest	88,026	52,359	27,613	4,098	(1,625)	170,471
Incentive Fees	161,749	350,201	(9,306)	13,951	739	517,334
Total Investment Income (Loss)	<u>249,775</u>	<u>402,560</u>	<u>18,307</u>	<u>18,049</u>	<u>(886)</u>	<u>687,805</u>
Interest and Dividend Revenue						
Other	15,602	21,563	7,605	18,146	8,020	70,936
Other	4,259	3,384	688	527	1,450	10,308
Total Revenues	<u>1,457,312</u>	<u>3,205,125</u>	<u>648,610</u>	<u>880,250</u>	<u>420,203</u>	<u>6,611,500</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	236,120	294,222	136,470	186,514	262,314	1,115,640
Performance Fee Compensation						
Realized						
Carried Interest	38,953	148,837	—	69,411	—	257,201
Incentive Fees	—	23,878	65,793	111,244	—	200,915
Unrealized						
Carried Interest	342,733	566,837	—	57,147	—	966,717
Incentive Fees	—	(15,015)	2,856	508	—	(11,651)
Total Compensation and Benefits	<u>617,806</u>	<u>1,018,759</u>	<u>205,119</u>	<u>424,824</u>	<u>262,314</u>	<u>2,528,822</u>
Other Operating Expenses						
Other Operating Expenses	124,137	116,391	66,966	96,940	82,205	486,639
Total Expenses	<u>741,943</u>	<u>1,135,150</u>	<u>272,085</u>	<u>521,764</u>	<u>344,519</u>	<u>3,015,461</u>
Economic Income	<u>\$ 715,369</u>	<u>\$2,069,975</u>	<u>\$ 376,525</u>	<u>\$ 358,486</u>	<u>\$ 75,684</u>	<u>\$ 3,596,039</u>
Segment Assets	<u>\$4,444,227</u>	<u>\$7,496,591</u>	<u>\$1,325,631</u>	<u>\$2,381,603</u>	<u>\$781,469</u>	<u>\$16,429,521</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2012 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$348,594	\$ 551,322	\$346,210	\$345,277	\$ —	\$1,591,403
Advisory Fees	—	—	—	—	357,417	357,417
Transaction and Other Fees, Net	100,080	85,681	188	40,875	295	227,119
Management Fee Offsets	(5,926)	(28,609)	(1,414)	(5,004)	—	(40,953)
Total Management and Advisory Fees, Net	<u>442,748</u>	<u>608,394</u>	<u>344,984</u>	<u>381,148</u>	<u>357,712</u>	<u>2,134,986</u>
Performance Fees						
Realized						
Carried Interest	109,797	165,114	—	52,511	—	327,422
Incentive Fees	—	25,656	83,433	192,375	—	301,464
Unrealized						
Carried Interest	148,381	683,764	—	162,045	—	994,190
Incentive Fees	—	(119)	9,042	(38,234)	—	(29,311)
Total Performance Fees	<u>258,178</u>	<u>874,415</u>	<u>92,475</u>	<u>368,697</u>	<u>—</u>	<u>1,593,765</u>
Investment Income						
Realized						
Carried Interest	25,823	45,302	7,270	15,611	1,392	95,398
Unrealized	85,337	90,875	8,517	4,769	1,348	190,846
Total Investment Income	<u>111,160</u>	<u>136,177</u>	<u>15,787</u>	<u>20,380</u>	<u>2,740</u>	<u>286,244</u>
Interest and Dividend Revenue	13,556	14,448	2,139	9,330	7,157	46,630
Other	2,417	894	3,816	(1,174)	(804)	5,149
Total Revenues	<u>828,059</u>	<u>1,634,328</u>	<u>459,201</u>	<u>778,381</u>	<u>366,805</u>	<u>4,066,774</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	222,709	271,122	119,731	182,077	235,137	1,030,776
Performance Fee Compensation						
Realized						
Carried Interest	3,679	62,418	—	30,336	—	96,433
Incentive Fees	—	13,060	23,080	103,902	—	140,042
Unrealized						
Carried Interest	58,555	165,482	—	97,562	—	321,599
Incentive Fees	—	(583)	1,317	(45,262)	—	(44,528)
Total Compensation and Benefits	<u>284,943</u>	<u>511,499</u>	<u>144,128</u>	<u>368,615</u>	<u>235,137</u>	<u>1,544,322</u>
Other Operating Expenses	130,845	123,714	57,809	84,488	84,589	481,445
Total Expenses	<u>415,788</u>	<u>635,213</u>	<u>201,937</u>	<u>453,103</u>	<u>319,726</u>	<u>2,025,767</u>
Economic Income	<u>\$412,271</u>	<u>\$ 999,115</u>	<u>\$257,264</u>	<u>\$325,278</u>	<u>\$ 47,079</u>	<u>\$2,041,007</u>

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 7,537,294	\$ (52,566)(a)	\$ 7,484,728
Expenses	\$ 2,992,796	\$ 863,060(b)	\$ 3,855,856
Other Income	\$ —	\$ 357,854(c)	\$ 357,854
Economic Income	\$ 4,544,498	\$ (557,772)(d)	\$ 3,986,726
Total Assets	\$19,099,623	\$ 12,411,271(e)	\$31,510,894

	December 31, 2013 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 6,611,500	\$ 1,668(a)	\$ 6,613,168
Expenses	\$ 3,015,461	\$ 851,279(b)	\$ 3,866,740
Other Income	\$ —	\$ 402,133(c)	\$ 402,133
Economic Income	\$ 3,596,039	\$ (447,478)(d)	\$ 3,148,561
Total Assets	\$16,429,521	\$ 13,249,085(e)	\$29,678,606

	Year Ended December 31, 2012		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$4,066,774	\$ (47,333)(a)	\$4,019,441
Expenses	\$2,025,767	\$ 1,234,914(b)	\$3,260,681
Other Income	\$ —	\$ 256,145(c)	\$ 256,145
Economic Income	\$2,041,007	\$ (1,026,102)(d)	\$1,014,905

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues and non-segment related Investment Income, which is included in Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Year Ended December 31,		
	2014	2013	2012
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ 52,219	\$ (5,575)	\$ 43,393
Fund Expenses Added in Consolidation	19,169	30,727	37,548
Non-Controlling Interests in Income (Loss) of Consolidated Entities	409,864	381,872	203,557
Transaction-Related Other Income (Loss)	(123,398)	(4,891)	(28,353)
Total Consolidation Adjustments and Reconciling Items	\$ 357,854	\$402,133	\$256,145

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2014	2013	2012
Economic Income	\$4,544,498	\$3,596,039	\$ 2,041,007
Adjustments			
Amortization of Intangibles	(111,254)	(106,643)	(150,148)
IPO and Acquisition-Related Charges	(856,382)	(722,707)	(1,079,511)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	409,864	381,872	203,557
Total Consolidation Adjustments and Reconciling Items	(557,772)	(447,478)	(1,026,102)
Income Before Provision for Taxes	<u>\$3,986,726</u>	<u>\$3,148,561</u>	<u>\$ 1,014,905</u>

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

22. SUBSEQUENT EVENTS

There have been no events since December 31, 2014 that require recognition or disclosure in the Consolidated Financial Statements.

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	\$1,526,668	\$2,257,860	\$ 1,679,426	\$2,020,774
Expenses	887,851	1,089,781	1,055,138	823,086
Other Income	70,155	138,585	8,682	140,432
Income Before Provision for Taxes	<u>\$ 708,972</u>	<u>\$1,306,664</u>	<u>\$ 632,970</u>	<u>\$1,338,120</u>
Net Income	<u>\$ 654,875</u>	<u>\$1,223,382</u>	<u>\$ 553,862</u>	<u>\$1,263,434</u>
Net Income Attributable to The Blackstone Group L.P.	<u>\$ 265,617</u>	<u>\$ 517,016</u>	<u>\$ 250,505</u>	<u>\$ 551,451</u>
Net Income Per Common Unit — Basic and Diluted				
Common Units — Basic	<u>\$ 0.44</u>	<u>\$ 0.85</u>	<u>\$ 0.41</u>	<u>\$ 0.90</u>
Common Units — Diluted	<u>\$ 0.44</u>	<u>\$ 0.85</u>	<u>\$ 0.41</u>	<u>\$ 0.89</u>
Distributions Declared (a)	<u>\$ 0.58</u>	<u>\$ 0.35</u>	<u>\$ 0.55</u>	<u>\$ 0.44</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	\$1,246,473	\$1,440,470	\$1,216,845	\$2,709,380
Expenses	835,101	914,762	786,405	1,330,472
Other Income	67,210	40,966	87,952	206,005
Income Before Provision for Taxes	<u>\$ 478,582</u>	<u>\$ 566,674</u>	<u>\$ 518,392</u>	<u>\$1,584,913</u>
Net Income	<u>\$ 427,589</u>	<u>\$ 510,592</u>	<u>\$ 460,915</u>	<u>\$1,493,823</u>
Net Income Attributable to The Blackstone Group L.P.	<u>\$ 167,635</u>	<u>\$ 211,148</u>	<u>\$ 171,164</u>	<u>\$ 621,255</u>
Net Income Per Common Unit — Basic and Diluted				
Common Units — Basic	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 1.05</u>
Common Units — Diluted	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 1.04</u>
Distributions Declared (a)	<u>\$ 0.42</u>	<u>\$ 0.30</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>

(a) Distributions declared reflects the calendar date of the declaration of each distribution.



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**ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION**

**THE BLACKSTONE GROUP L.P.**

**Unaudited Consolidating Statements of Financial Condition  
(Dollars in Thousands)**

	December 31, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,412,472	\$ —	\$ —	\$ 1,412,472
Cash Held by Blackstone Funds and Other	348,957	1,459,135	—	1,808,092
Investments	12,123,708	11,835,242	(1,193,361)	22,765,589
Accounts Receivable	364,927	194,394	—	559,321
Due from Affiliates	1,060,831	723,285	(655,708)	1,128,408
Intangible Assets, Net	458,833	—	—	458,833
Goodwill	1,787,392	—	—	1,787,392
Other Assets	290,273	48,284	—	338,557
Deferred Tax Assets	1,252,230	—	—	1,252,230
<b>Total Assets</b>	<u>\$19,099,623</u>	<u>\$14,260,340</u>	<u>\$(1,849,069)</u>	<u>\$31,510,894</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 2,150,503	\$ 6,787,135	\$ —	\$ 8,937,638
Due to Affiliates	1,289,552	1,350,911	(1,150,375)	1,490,088
Accrued Compensation and Benefits	2,439,257	—	—	2,439,257
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
Repurchase Agreements	—	29,907	—	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	430,712	763,867	—	1,194,579
<b>Total Liabilities</b>	<u>6,310,024</u>	<u>9,017,698</u>	<u>(1,150,375)</u>	<u>14,177,347</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>2,441,854</u>	<u>—</u>	<u>2,441,854</u>
<b>Partners' Capital</b>				
Partners' Capital	6,999,830	698,694	(698,694)	6,999,830
Appropriated Partners' Capital	—	81,301	—	81,301
Accumulated Other Comprehensive Income	(21,932)	1,068	—	(20,864)
Non-Controlling Interests in Consolidated Entities	1,395,631	2,019,725	—	3,415,356
Non-Controlling Interests in Blackstone Holdings	4,416,070	—	—	4,416,070
<b>Total Partners' Capital</b>	<u>12,789,599</u>	<u>2,800,788</u>	<u>(698,694)</u>	<u>14,891,693</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$19,099,623</u>	<u>\$14,260,340</u>	<u>\$(1,849,069)</u>	<u>\$31,510,894</u>

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
(Dollars in Thousands)

	December 31, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 831,998	\$ —	\$ —	\$ 831,998
Cash Held by Blackstone Funds and Other	251,554	794,328	—	1,045,882
Investments	9,739,140	12,493,961	(503,578)	21,729,523
Accounts Receivable	507,612	380,744	—	888,356
Reverse Repurchase Agreements	148,984	—	—	148,984
Due from Affiliates	1,138,002	108,131	(54,089)	1,192,044
Intangible Assets, Net	560,748	—	—	560,748
Goodwill	1,787,392	—	—	1,787,392
Other Assets	254,884	29,588	—	284,472
Deferred Tax Assets	1,209,207	—	—	1,209,207
<b>Total Assets</b>	<u>\$16,429,521</u>	<u>\$13,806,752</u>	<u>\$(557,667)</u>	<u>\$29,678,606</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,664,305	\$ 8,802,199	\$ —	\$10,466,504
Due to Affiliates	1,261,562	249,702	(74,405)	1,436,859
Accrued Compensation and Benefits	2,132,939	—	—	2,132,939
Securities Sold, Not Yet Purchased	76,195	—	—	76,195
Repurchase Agreements	316,352	—	—	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	299,813	572,273	—	872,086
<b>Total Liabilities</b>	<u>5,751,166</u>	<u>9,624,174</u>	<u>(74,405)</u>	<u>15,300,935</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>1,950,442</u>	<u>—</u>	<u>1,950,442</u>
<b>Partners' Capital</b>				
Partners' Capital	6,002,592	495,229	(495,229)	6,002,592
Appropriated Partners' Capital	—	300,708	—	300,708
Accumulated Other Comprehensive Income	1,230	2,236	—	3,466
Non-Controlling Interests in Consolidated Entities	1,018,117	1,433,963	11,967	2,464,047
Non-Controlling Interests in Blackstone Holdings	3,656,416	—	—	3,656,416
<b>Total Partners' Capital</b>	<u>10,678,355</u>	<u>2,232,136</u>	<u>(483,262)</u>	<u>12,427,229</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$16,429,521</u>	<u>\$13,806,752</u>	<u>\$(557,667)</u>	<u>\$29,678,606</u>

(a) The Consolidated Blackstone Funds consisted of the following:

- Blackstone AG Investment Partners L.P.\*
- Blackstone Distressed Securities Fund L.P.
- Blackstone Market Opportunities Fund L.P.
- Blackstone Real Estate Partners VI.C — ESH L.P.\*
- Blackstone Real Estate Special Situations Fund L.P.\*
- Blackstone Real Estate Special Situations Offshore Fund Ltd.\*
- Blackstone Strategic Alliance Fund II L.P.
- Blackstone Strategic Alliance Fund L.P.

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Blackstone Strategic Capital Holdings B L.P.\*  
Blackstone Strategic Capital Holdings L.P.\*  
Blackstone Strategic Equity Fund L.P.  
Blackstone Value Recovery Fund L.P.  
Blackstone/GSO Loan Financing Limited\*  
Blackstone/GSO Secured Trust Ltd.  
BREP Edens Investment Partners L.P.  
BSSF I AIV L.P.\*  
BTD CP Holdings, LP  
GSO Legacy Associates II LLC  
GSO Legacy Associates LLC  
Shanghai Blackstone Equity Investment Partnership L.P.  
Private equity side-by-side investment vehicles  
Real estate side-by-side investment vehicles  
Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles

\* Consolidated as of December 31, 2014 only.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### Management’s Report on Internal Control Over Financial Reporting

Management of The Blackstone Group L.P. and subsidiaries (“Blackstone”) is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone’s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Blackstone’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone’s assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone’s internal control over financial reporting as of December 31, 2014 based on the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Blackstone’s internal control over financial reporting as of December 31, 2014 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone’s financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone’s internal control over financial reporting as of December 31, 2014, which is included herein.

### ITEM 9B. OTHER INFORMATION

#### Appointment of Bennett J. Goodman to Board of Directors

On February 24, 2015, Bennett J. Goodman, Senior Managing Director and Co-Founder of GSO Capital Partners, was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. For more information, see “Item 10. Directors, Executives and Corporate Governance” and “Item 13. Certain Relationships and Related Transactions, and Director Independence — Transactions with Related Persons — Bennett J. Goodman” and “Item 13. Certain Relationships and Related Transactions, and Director Independence — Transactions with Related Persons — Investment in or Alongside Our Funds”.

#### Section 13(r) Disclosure

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (“ITRA”), which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2014, August 8, 2014 and November 6, 2014 as well as Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to us by Travelport Limited, which may be considered our affiliate.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers of Blackstone Group Management L.L.C.

The directors and executive officers of Blackstone Group Management L.L.C. as of the date of this filing, are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen A. Schwarzman	68	Founder, Chairman and Chief Executive Officer and Director
Hamilton E. James	64	President, Chief Operating Officer and Director
J. Tomilson Hill	66	Vice Chairman and Director
Bennett J. Goodman	57	Co-Founder of GSO Capital Partners and Director
Jonathan D. Gray	45	Global Head of Real Estate and Director
Laurence A. Tosi	47	Chief Financial Officer
John G. Finley	58	Chief Legal Officer
Joan Solotar	50	Senior Managing Director — External Relations and Strategy
Richard H. Jenrette	85	Director
Jay O. Light	73	Director
The Right Honorable Brian Mulroney	75	Director
William G. Parrett	69	Director
Rochelle B. Lazarus	68	Director

**Stephen A. Schwarzman** is the Chairman and Chief Executive Officer of Blackstone and the Chairman of the board of directors of our general partner. Mr. Schwarzman was elected Chairman of the board of directors of our general partner effective March 20, 2007. Mr. Schwarzman is a founder of Blackstone and has been involved in all phases of the firm's development since its founding in 1985. Mr. Schwarzman began his career at Lehman Brothers, where he was elected Managing Director in 1978. He was engaged principally in the firm's mergers and acquisitions business from 1977 to 1984, and served as Chairman of the firm's Mergers & Acquisitions Committee in 1983 and 1984. Mr. Schwarzman is a member of The Council on Foreign Relations, The Business Council, The Business Roundtable, and The International Business Council of the World Economic Forum. He serves on the boards of The New York Public Library, The Asia Society, The Board of Directors of The New York City Partnership and The Advisory Board of the School of Economics and Management at Tsinghua University, Beijing and is Chairman of Schwarzman Scholars at Tsinghua University. He is a Trustee of The Frick Collection in New York City and Chairman Emeritus of the Board of Directors of The John F. Kennedy Center for the Performing Arts. Mr. Schwarzman was awarded the Légion d'Honneur of France in 2007 and promoted to Officier by President Nicolas Sarkozy in 2010. Mr. Schwarzman holds a BA from Yale University and an MBA from Harvard Business School. He has served as an adjunct professor at the Yale School of Management and on the Harvard Business School Board of Dean's Advisors. In 2012, he was awarded an Honorary Degree from Quinnipiac University.

**Hamilton E. James** is President, Chief Operating Officer of Blackstone and a member of the board of directors of our general partner. Mr. James was elected to the board of directors of our general partner effective March 20, 2007. Prior to joining Blackstone in 2002, Mr. James was Chairman of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of its Executive Board since the acquisition of Donaldson, Lufkin & Jenrette, or "DLJ," by Credit Suisse First Boston in 2000. Prior to the acquisition of DLJ, Mr. James was the Chairman of DLJ's Banking Group, responsible for all the firm's investment banking and merchant banking activities and a member of its Board of Directors. Mr. James joined DLJ in 1975 as an Investment Banking associate. He became head of DLJ's global mergers and acquisitions group in 1982, founded DLJ Merchant Banking, Inc. in 1985, and was named Chairman of the Banking Group in 1995 with responsibility for all of the firm's investment banking, alternative asset management and emerging market sales and trading activities. Mr. James is a Director of Costco Wholesale Corporation and was, until March 1, 2013, a Director of Swift River Investments, Inc., and has served on a number of other corporate boards. Mr. James is Trustee of The Metropolitan Museum of Art, member of The Center for American Progress Board of Trustees, Trustee and member of The Executive Committee of the Second Stage Theatre, Vice Chairman of Trout Unlimited's Coldwater Conservations

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Fund, Trustee of Woods Hole Oceanographic Institute, Advisory Board Member of the Montana Land Reliance, Trustee of the Wildlife Conservation Society and Chairman Emeritus of the Board of Trustees of American Ballet Theatre. Mr. James received a BA from Harvard College and an MBA from Harvard Business School.

**J. Tomilson Hill** is President and Chief Executive Officer of Blackstone Alternative Asset Management (“BAAM”), a Vice Chairman of The Blackstone Group L.P. and a member of the board of directors of our general partner. Mr. Hill was elected to the board of directors of our general partner effective March 20, 2007. Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role as Chief Executive Officer of BAAM. In his current capacity, Mr. Hill is responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of its Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc. Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee and serves on the Council’s Board of Directors, and is a member of the Board of Directors of Lincoln Center Theater, where he is Chairman. He serves on the Board of the Telluride Foundation, the Advantage Testing Foundation, and of Our Lady Queen of Angels School, a parochial school (K-8th grade) in Spanish Harlem. He is a member of the Board of Directors of OpenPeak Inc. and Advantage Testing, Inc.

**Bennett J. Goodman** is a Co-Founder of GSO Capital Partners (“GSO”) and a member of the board of directors of our general partner. Mr. Goodman was elected to the board of directors of our general partner effective February 24, 2015. He also sits on the firm’s Management Committee. Since joining Blackstone in 2008, Mr. Goodman has focused on the management of GSO, which is Blackstone’s credit investment platform with over \$70 billion of assets under management in various direct lending strategies, leveraged loan vehicles and distressed investment funds. Before co-founding GSO in 2005, Mr. Goodman was the Managing Partner of the Alternative Capital Division of Credit Suisse. Mr. Goodman joined Credit Suisse in November 2000 when they acquired Donaldson, Lufkin & Jenrette (“DLJ”) where he was Global Head of Leveraged Finance. Mr. Goodman joined DLJ in February of 1988 as the founder of the High Yield Capital Markets Group. Prior to joining DLJ, Mr. Goodman worked in the high yield business at Drexel Burnham Lambert from 1984 to 1988. Mr. Goodman is currently on the Board of Directors of Lincoln Center and the Central Park Conservancy. Mr. Goodman received Institutional Investor’s 2012 Money Manager of The Year Award. He also received the 2004 Lifetime Achievement Award from Euromoney Magazine for his career achievements in the global capital markets. He graduated from Lafayette College and the Harvard Business School.

**Jonathan D. Gray** is Global Head of Real Estate and a member of the board of directors of our general partner. Mr. Gray was elected to the board of directors of our general partner effective February 24, 2012. He also sits on the firm’s Management Committee. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with over \$80 billion in investor capital under management. Blackstone’s portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe and Asia. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania, where he graduated magna cum laude and was elected to Phi Beta Kappa. He currently serves as a board member of the Trinity School and is Chairman of the Board of Harlem Village Academies. Mr. Gray and his wife, Mindy, established the Basser Research Center at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused breast and ovarian cancers.

**Laurence A. Tosi** is Blackstone’s Chief Financial Officer and a member of the firm’s Management Committee. Before joining Blackstone in 2008, Mr. Tosi was a Managing Partner and the Chief Operating Officer of Global Markets and Investment Banking at Merrill Lynch & Co., a position which he held since 2007. From 2004 through 2007, Mr. Tosi was Merrill Lynch’s Finance Director and Principal Accounting Officer responsible for global finance, including worldwide accounting, regulatory reporting, budgeting and corporate business development. Prior

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to that, Mr. Tosi was Chief Financial Officer and Head of Merrill Lynch business finance from 2002 to 2004. He was also global Head of Corporate Development from 1999 to 2007 where he managed many of the firm's strategic acquisitions and investments. Mr. Tosi joined Merrill Lynch in 1999 prior to which he was Director of Business Development for General Electric Company's NBC division. Mr. Tosi received a BA, a JD and an MBA from Georgetown University where he currently serves on the University's Board of Regents.

**John G. Finley** is Chief Legal Officer of Blackstone. Before joining Blackstone in 2010, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years where he was most recently a member of that law firm's Executive Committee and Head of Global Mergers & Acquisitions. Mr. Finley is a member of the Advisory Board of the Harvard Law School Program on Corporate Governance and the Board of Advisors of the University of Pennsylvania Institute of Law and Economics and has served as a Trustee of the Jewish Board of Family and Children Services. Mr. Finley received a BS in Economics and a BA in History from the University of Pennsylvania, and a JD from Harvard Law School.

**Joan Solotar** is a Senior Managing Director, Head of the External Relations and Strategy Group of Blackstone and a member of the firm's Management Committee. Ms. Solotar has management responsibility for shareholder relations and public affairs and also guides the firm on analyzing strategic development opportunities. Before joining Blackstone in 2007, Ms. Solotar was with Banc of America Securities where she was a Managing Director and Head of Equity Research. She started her career in equity research at The First Boston Corporation and prior to joining Bank of America was part of the financial services team at Donaldson, Lufkin & Jenrette and later with Credit Suisse First Boston as a Managing Director. Ms. Solotar was ranked each year from 1995 to 2002 in the Brokers and Asset Management category on the Institutional Investor All-America Research Team, and consistently ranked highly in the Greenwich Survey of portfolio managers. She also served as Chairperson of the Research Committee for the Securities Industry Association. Ms. Solotar received a BS in Management Information Systems at the State University of New York at Albany and an MBA in Finance at New York University. She is currently on the Board of Directors of the East Harlem Tutorial Program.

**Richard H. Jenrette** is a member of the board of directors of our general partner. Mr. Jenrette was elected to the board of directors of our general partner effective July 14, 2008. Mr. Jenrette is the retired former Chairman and Chief Executive Officer of The Equitable Companies Incorporated and the co-founder and retired Chairman and Chief Executive Officer of Donaldson, Lufkin & Jenrette, Inc. He is also a former Chairman of The Securities Industry Association and has served in the past as a director or trustee of The McGraw-Hill Companies, Advanced Micro Devices Inc., the American Stock Exchange, The Rockefeller Foundation, The Duke Endowment, the University of North Carolina, New York University and The National Trust for Historic Preservation.

**Rochelle B. Lazarus** is a member of the board of directors of our general partner. Ms. Lazarus was elected to the board of directors of our general partner effective July 9, 2013. Ms. Lazarus is Chairman Emeritus of Ogilvy & Mather and served as Chairman of that company from 1997 to June 2012. Prior to becoming Chief Executive Officer and Chairman, she also served as president of O&M Direct North America, Ogilvy & Mather New York, and Ogilvy & Mather North America. Ms. Lazarus currently serves on the boards of Merck & Co., Inc., General Electric (where she chairs the Governance and Public Affairs Committee), the Financial Industry Regulatory Authority (FINRA), World Wildlife Fund, Defense Business Board and Lincoln Center for the Performing Arts. She is a trustee of the New York Presbyterian Hospital and is a member of the Board of Overseers of Columbia Business School. She is also a member of the Council on Foreign Relations and Women's Forum, Inc.

**Jay O. Light** is a member of the board of directors of our general partner. Mr. Light was elected to the board of directors of our general partner effective September 18, 2008. Mr. Light is the Dean Emeritus of Harvard Business School and the George F. Baker Professor of Administration Emeritus. Prior to that, Mr. Light was the Dean of Harvard Business School from 2006 to 2010. Before becoming the Dean of Harvard Business School, Mr. Light was Senior Associate Dean, Chairman of the Finance Area, and a professor teaching Investment Management, Capital Markets, and Entrepreneurial Finance for 30 years. Mr. Light is a director of the Harvard Management Company, a director of Partners HealthCare (the Mass General and Brigham & Women's Hospitals) and chairman of its

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Investment Committee, a member of the Investment Committee of several endowments, a director of several private firms, and an advisor/trustee to several corporate and institutional pools of capital. In prior years until 2008, Mr. Light was a Trustee of the GMO Trusts, a family of mutual funds for institutional investors.

**The Right Honorable Brian Mulroney** is a member of the board of directors of our general partner. Mr. Mulroney was elected to the board of directors of our general partner effective June 21, 2007. Mr. Mulroney is a senior partner and international business consultant for the Montreal law firm, Norton Rose Canada LLP. Prior to joining Norton Rose Canada, Mr. Mulroney was the eighteenth Prime Minister of Canada from 1984 to 1993 and leader of the Progressive Conservative Party of Canada from 1983 to 1993. He served as the Executive Vice President of the Iron Ore Company of Canada and President beginning in 1977. Prior to that, Mr. Mulroney served on the Cliché Commission of Inquiry in 1974. Mr. Mulroney is a Senior Advisor of Global Affairs at Barrick Gold Corporation. He also serves on Barrick's board of directors and is the Chairman of their International Advisory Board. Mr. Mulroney is also Chairman of the Board of Directors of Quebecor Inc. and a member of the Board of Directors of Quebecor Media Inc. and Wyndham Worldwide Corporation. In prior years until 2009, Mr. Mulroney was a member of the Board of Directors of Archer Daniels Midland Company and Quebecor World Inc.

**William G. Parrett** is a member of the board of directors of our general partner. Mr. Parrett was elected to the board of directors of our general partner effective November 9, 2007. Until May 31, 2007, Mr. Parrett served as the Chief Executive Officer of Deloitte Touche Tohmatsu. Certain of the member firms of Deloitte Touche Tohmatsu or their subsidiaries and affiliates provide professional services to The Blackstone Group L.P. or its affiliates. Mr. Parrett co-founded the Global Financial Services Industry practice of Deloitte and served as its first Chairman. Currently, Mr. Parrett is Senior Trustee of the United States Council for International Business. Mr. Parrett is a member of the board of directors of Thermo Fisher Scientific Inc., Eastman Kodak Company and UBS AG, and is Chairman of the audit committee of each of these companies as well as the Corporate Responsibility Committee of UBS and the Strategy and Finance Committee of Thermo Fisher. He is also a member of the Board of Directors of iGATE and serves on the company's Nominating and Corporate Governance Committee and Compensation Committee. He is a member of the Board of Trustees of Carnegie Hall and a past Chairman of the Board of Trustees of United Way Worldwide.

## Board Composition

Our general partner seeks to ensure that the board of directors of our general partner is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the board of directors of our general partner, Mr. Schwarzman takes into account (a) minimum individual qualifications, such as strength of character, mature judgment, industry knowledge or experience and an ability to work collegially with the other members of the board of directors, and (b) all other factors he considers appropriate.

After conducting an initial evaluation of a candidate, Mr. Schwarzman will interview that candidate if he believes the candidate might be suitable to be a director and may also ask the candidate to meet with other directors and senior management. If, following such interview and any consultations with senior management, Mr. Schwarzman believes a candidate would be a valuable addition to the board of directors, he will appoint that individual to the board of directors of our general partner.

When considering whether the board's directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the board to satisfy its oversight responsibilities effectively in light of the Partnership's business and structure, Mr. Schwarzman focused on the information described in each of the board members' biographical information set forth above. In particular, with regard to Mr. Jenrette, Mr. Schwarzman considered his extensive financial background and experience in a variety of senior leadership roles, including his roles at Donaldson, Lufkin & Jenrette, Inc. and The Equitable Companies Incorporated. With regard to Ms. Lazarus, Mr. Schwarzman considered her extensive business background and her management experience in a variety of senior leadership roles at Ogilvy & Mather. With regard to Mr. Light, Mr. Schwarzman considered his distinguished career as a professor and dean at Harvard Business School with extensive knowledge and expertise of the



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investment management and capital markets industries. With regard to Mr. Mulrone, Mr. Schwarzman considered his distinguished career of government service, especially his service as the Prime Minister of Canada. With regard to Mr. Parrett, Mr. Schwarzman considered his significant experience, expertise and background with regard to accounting matters and his leadership role at Deloitte. With regard to Messrs. James, Hill, Goodman and Gray, Mr. Schwarzman considered their leadership and extensive knowledge of our business and operations gained through their years of service at our firm and with regard to himself, Mr. Schwarzman considered his role as founder and long-time chief executive officer of our firm.

### Partnership Management and Governance

Our general partner, Blackstone Group Management L.L.C., manages all of our operations and activities. Our general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business. Our partnership agreement provides that our general partner in managing our operations and activities is entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners, and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Blackstone Group Management L.L.C. is wholly owned by our senior managing directors and controlled by our founder, Mr. Schwarzman. Our common unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of our common unitholders are limited as set forth in our partnership agreement and in the Delaware Limited Partnership Act.

Blackstone Group Management L.L.C. does not receive any compensation from us for services rendered to us as our general partner. Our general partner is reimbursed by us for all expenses it incurs in carrying out its activities as general partner of the Partnership, including compensation paid by the general partner to its directors and the cost of directors and officers liability insurance obtained by the general partner.

The limited liability company agreement of Blackstone Group Management L.L.C. establishes a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Mr. Schwarzman will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner holding a majority in interest in our general partner. We refer to the board of directors of Blackstone Group Management L.L.C. as the "board of directors of our general partner." The board of directors of our general partner has a total of ten members, including five members who are not officers or employees, and are otherwise independent, of Blackstone and its affiliates, including our general partner.

The board of directors of our general partner has three standing committees: the audit committee, the conflicts committee and the executive committee.

**Audit Committee**. The audit committee consists of Messrs. Parrett (Chairman), Jenrette and Light and Ms. Lazarus. The purpose of the audit committee is to assist the board of directors of Blackstone Group Management L.L.C. in overseeing and monitoring (a) the quality and integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) our independent registered public accounting firm's qualifications and independence, and (d) the performance of our independent registered public accounting firm. The members of the audit committee meet the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the New York Stock Exchange listing standards and SEC rules applicable to audit committees. The board of directors of our general partner has determined that Mr. Parrett is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Parrett serves on the audit committees of four public companies, including Blackstone. The board of directors of our general partner determined at its January 2015 meeting that upon consideration of all relevant facts and circumstances

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known to the board of directors, Mr. Parrett's simultaneous service on the audit committees of four public companies does not impair his ability to effectively serve on the audit committee of the board of directors of our general partner. The audit committee has a charter, which is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

**Conflicts Committee** . The conflicts committee consists of Messrs. Parrett (Chairman), Jenrette and Light and Ms. Lazarus. The conflicts committee reviews specific matters that our general partner's board of directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of any conflict of interest submitted to it is fair and reasonable to the Partnership. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us and not a breach by us of any duties we may owe to our common unitholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "— Item 13. Certain Relationships and Related Transactions, and Director Independence", and may establish guidelines or rules to cover specific categories of transactions. The members of the conflicts committee meet the independence standards for service on an audit committee of a board of directors pursuant to federal and New York Stock Exchange rules relating to corporate governance matters.

**Executive Committee** . The executive committee of the board of directors of Blackstone Group Management L.L.C. consists of Messrs. Schwarzman, James, Hill, Goodman and Gray. The board of directors has delegated all of the power and authority of the full board of directors to the executive committee to act when the board of directors is not in session.

### Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics and a Code of Ethics for Financial Professionals, which apply to our principal executive officer, principal financial officer and principal accounting officer. Each of these codes is available on our internet website at <http://ir.blackstone.com/governance.cfm>. We intend to disclose any amendment to or waiver of the Code of Ethics for Financial Professionals and any waiver of our Code of Business Conduct and Ethics on behalf of an executive officer or director either on our Internet website or in an 8-K filing.

### Corporate Governance Guidelines

The board of directors of our general partner has a governance policy, which addresses matters such as the board of directors' responsibilities and duties and the board of directors' composition and compensation. The governance policy is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

### Communications to the Board of Directors

The non-management members of our general partner's board of directors meet at least quarterly. The presiding director at these non-management board member meetings is Mr. Parrett. All interested parties, including any employee or unitholder, may send communications to the non-management members of our general partner's board of directors by writing to: The Blackstone Group L.P., Attn: Audit Committee, 345 Park Avenue, New York, New York 10154.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the executive officers and directors of our general partner, and persons who own more than ten percent of a registered class of the Partnership's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish the Partnership with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2014, such persons complied with all such filing requirements, with the exception of the following late filings due to administrative oversight: a Form 4 report on February 26, 2014 by Mr. Hill reflecting a sale of common units and a Form 5 report on February 17, 2015 by Ms. Lazarus reflecting two instances of a sale of units by trusts for the benefit of Ms. Lazarus' child.

**ITEM 11. EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

*Overview of Compensation Philosophy and Program*

The intellectual capital collectively possessed by our senior managing directors (including our named executive officers) and other employees is the most important asset of our firm. We invest in people. We hire qualified people, train them, encourage them to provide their best thinking to the firm for the benefit of the investors in our funds and our advisory clients, and compensate them in a manner designed to retain and motivate them and align their interests with those of the investors in the funds we manage and the clients we advise.

Our overriding compensation philosophy for our senior managing directors and certain other employees is that compensation should be composed primarily of (a) annual cash bonus payments tied to the performance of the applicable business unit(s) in which such employee works, (b) performance interests (composed primarily of carried interest and incentive fee interests) tied to the performance of the investments made by the funds in the business unit in which such employee works or for which he or she has responsibility, (c) deferred equity awards reflecting the value of our common units, and (d) additional cash payments and deferred equity awards tied to extraordinary performance of such employee or other circumstances (for example, if there has been a change of role or responsibility). We believe base salary should represent a significantly lesser component of total compensation. We believe the appropriate combination of annual cash bonus payments and performance interests or deferred equity awards encourages our senior managing directors and other employees to focus on the underlying performance of our investment funds and objectives of our advisory clients, as well as the overall performance of the firm and interests of our common unitholders. To that end, the primary form of compensation to our senior managing directors and other employees who work in our carry fund operations is generally a combination of annual cash bonus payments related to the performance of those carry fund operations, carried interest or incentive fee interests and, in specified cases, deferred equity awards. Along the same lines, the primary form of compensation to our senior managing directors and other employees who do not work in our carry fund operations is generally a combination of annual cash bonus payments tied to the performance of the applicable business unit in which such employee works and deferred equity awards which are generally a prescribed percentage of their annual cash bonus payments under our Deferred Compensation Plan.

Employees at higher total compensation levels are generally targeted to receive a greater percentage of their total compensation payable in participation in performance interests and deferred equity awards and a lesser percentage in cash compared to employees who are paid less. We believe that the proportion of compensation that is “at risk” (that is, performance interests and deferred equity awards) should increase as an employee’s level of responsibility rises.

Our compensation program includes significant elements that discourage excessive risk taking and aligns the compensation of our employees with the long-term performance of the firm. For example, notwithstanding the fact that for accounting purposes we accrue compensation for the Performance Plans (as defined below) related to our carry funds as increases in the carrying value of the portfolio investments are recorded in those carry funds, we only make cash payments to our employees related to carried interest when profitable investments have been realized and cash is distributed first to the investors in our funds, followed by the firm and only then to employees of the firm. Moreover, if a carry fund fails to achieve specified investment returns due to diminished performance of later investments, our Performance Plans entitle us to “clawback” carried interest payments previously made to an employee for the benefit of the limited partner investors in that fund, and we escrow a portion of all carried interest payments made to employees to help fund their potential future “clawback” obligations, all of which further discourages excessive risk-taking by our employees. Similarly, for our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund’s portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period. In addition, and as noted below with respect to our named executive officers, the requirement that we have our professional employees invest in certain of the funds they manage directly aligns the interests of our

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professionals and our investors. In most cases, these investments represent a significant percentage of employees' after-tax compensation. Lastly, because our deferred equity awards have significant vesting or deferral provisions, the actual amount of compensation realized by the recipient will be tied directly to the long-term performance of our common units.

We believe our current compensation and benefit allocations for senior professionals are best in class and are consistent with companies in the alternative asset management and financial advisory industries. We do not generally rely on compensation surveys or compensation consultants. Our senior management periodically reviews the effectiveness and competitiveness of our compensation program, and such reviews may in the future involve the assistance of independent consultants.

*Personal Investment Obligations*. As part of our compensation philosophy and program, we require our named executive officers to personally invest their own capital in and alongside the funds that we manage. We believe that this strengthens the alignment of interests between our executive officers and the investors in those investment funds. (See “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Side-By-Side and Other Investment Transactions”.) In determining compensation for our named executive officers, we do not take into account the gains or losses attributable to the personal investments by our named executive officers in our investment funds.

For equity awards granted in 2014 and prior years, we also require each of our named executive officers to hold at least 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) throughout their employment with the firm and thereafter until the expiration of the covenants included in their respective non-competition and non-solicitation agreements, which are described below. We believe the continued ownership by our named executive officers of significant amounts of our equity through their direct and indirect interests in the Blackstone Holdings Partnerships affords significant alignment of interests with our common unitholders. In 2015, we revised the minimum retained ownership requirement in order to strengthen retention incentives. As a result, for equity awards to be granted in 2015 and future years our named executive officers will be required to hold 25% of their vested units (other than vested units awarded under our Deferred Compensation Plan) until the earlier of (1) ten years after the applicable vesting date and (2) one year following termination of employment.

### *Compensation Elements for Named Executive Officers*

The key elements of the compensation of the executive officers listed in the tables below (“named executive officers”) for 2014 were base compensation, which is composed of base salary, cash bonus and equity-based compensation, and performance compensation, which is composed of carried interest and incentive fee allocations:

1. Base Salary. Each named executive officer received a \$350,000 annual base salary in 2014, which equals the total yearly partnership drawings that were received by each of our senior managing directors prior to our initial public offering in 2007. In keeping with historical practice, we continue to pay this amount as a base salary.

2. Annual Cash Bonus Payments / Deferred Equity Awards. Since our initial public offering, Mr. Schwarzman has not received any compensation other than the \$350,000 annual salary described above and the actual realized carried interest distributions or incentive fees he may receive in respect of his participation in the carried interest or incentive fees earned from our funds through our Performance Plans described below. We believe that having Mr. Schwarzman's compensation largely based on ownership of a portion of the carried interest or incentive fees earned from our funds aligns his interests with those of the investors in our funds and our common unitholders.

Each of our named executive officers other than Mr. Schwarzman received annual cash bonus payments in 2014 in addition to their base salary. These cash payments included participation interests in the earnings of the firm's various investment and advisory businesses. Mr. Hill, who has primary responsibility for Hedge Fund Solutions, our

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funds of hedge funds operation, also received cash payments that were based upon the performance of that business. Indicative participation interests for each year were disclosed to a named executive officer at the beginning of such year and represented estimates of the expected percentage participation that such named executive officer may have had in the relevant business unit(s)' earnings for that same year. However, the ultimate cash payments paid to the named executive officers at the end of the year in respect of their participation interests were determined in the discretion of Mr. Schwarzman and Mr. James, as described below. Earnings for a business unit are calculated based on the annual operating income of that business unit and are generally a function of the performance of such business unit, which is evaluated by Mr. Schwarzman and subject to modification by the firm in its sole discretion. The ultimate cash payment amounts were based on (a) the prior and anticipated performance of the named executive officer, (b) the prior and anticipated performance of the segments and product lines in which the officer serves and for which he has responsibility, and (c) the estimated participation interests given to the officer at the beginning of the year in respect of the investments to be made in that year. We make annual cash bonus payments in the first quarter of the ensuing year to reward individual performance for the prior year. The ultimate cash payments that are made are fully discretionary as further discussed below under “— Determination of Incentive Compensation”.

Most key personnel participate in our Deferred Compensation Plan. The Deferred Compensation Plan provides for the automatic, mandatory deferral of a portion of each participant's annual cash bonus payment. The portion deferred is prescribed under the Deferred Compensation Plan. By deferring a portion of a participant's compensation for three years, the Deferred Compensation Plan acts as an employment retention mechanism and thereby enhances the alignment of interests between such participant and the firm. Many asset managers that are public companies utilize deferred compensation plans as a means of retaining and motivating their professionals, and we believe that it is in the interest of our common unitholders to do the same for our personnel. In 2015, Mr. Schwarzman and Mr. James, determined that in order to strengthen retention incentives, it was appropriate to amend and restate our Deferred Compensation Plan beginning with awards granted in 2015 in respect of 2014. In addition to modifying the deferral period from four years to three years, the amendments also revised the delivery terms of the deferral awards and replaced the former premium award component of the plan with the payment of current cash dividend equivalents on both vested and unvested deferred awards. (See “— Nonqualified Deferred Compensation for 2014 — Narrative to Nonqualified Deferred Compensation for 2014 Table”.)

On January 16, 2015, Messrs. James, Hill, Tosi and Finley each received a deferral award under the Deferred Compensation Plan of deferred restricted common units in respect of their service in 2014. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. The percentage of the named executive officer's 2014 annual cash bonus payment mandatorily deferred into deferred restricted common units was approximately 1.8% for Mr. James, 45.1% for Mr. Hill, 20.1% for Mr. Tosi and 20.1% for Mr. Finley. With respect to Messrs. Tosi and Finley, Mr. Schwarzman and Mr. James, it was determined that since these individuals were participating in the Deferred Compensation Plan for the first time it was appropriate to use the discretion permitted under the terms of the Deferred Compensation Plan to cap their respective deferral percentages at approximately 20%. These awards are reflected as stock awards for fiscal 2014 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2014 table.

In 2014, Messrs. Tosi and Finley each received a discretionary award of 31,071 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan. These awards are also reflected as stock awards for fiscal 2014 in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2014 table.

In January 2015, Messrs. Tosi and Finley were each awarded a discretionary award of deferred restricted Blackstone Holdings Partnership Units with a value of \$5,000,000 and \$7,500,000, respectively. These awards reflected 2014 performance and are also intended to further promote retention and to incentivize future performance. The awards will be granted under the 2007 Equity Incentive Plan and are expected to be granted on

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July 1, 2015, subject to the named executive officer's continued employment through such date. The awards will vest on substantially similar terms as the deferred restricted Blackstone Holdings Partnership Units granted to Messrs. Tosi and Finley in 2013 and 2014, except that (1) these awards will also be forfeited if the named executive officer is terminated without cause and (2) upon a qualifying retirement, 50% of the unvested partnership units will continue to vest and be delivered over the vesting period, subject to forfeiture if the named executive officer violates any applicable provision of his employment agreement or engages in any competitive activity (as such term is defined in the applicable award agreement). These awards will be reflected as stock awards for fiscal 2015 in the Summary Compensation Table for 2015 and in the Grants of Plan-Based Awards in 2015 table.

3. Participation in Performance Fees. During 2014, all of our named executive officers participated in the carried interest of our carry funds or the incentive fees of our funds that pay incentive fees through their participation interests in the carry or incentive fee pools generated by these funds. The carry or incentive fee pool with respect to each fund in a given year is funded by a fixed percentage of the total amount of carried interest or incentive fees earned by Blackstone for such fund in that year. We refer to these pools and employee participation therein as our "Performance Plans" and payments made thereunder as performance payments. Because the aggregate amount of performance payments payable through our Performance Plans is directly tied to the performance of the funds, we believe this fosters a strong alignment of interests between the investors in those funds and these named executive officers, and therefore benefits our unitholders. In addition, most alternative asset managers, including several of our competitors, use participation in carried interest or incentive fees as a central means of compensating and motivating their professionals, and we believe that we must do the same in order to attract and retain the most qualified personnel. For purposes of our financial statements, we are treating the income allocated to all our personnel who have participation interests in the carried interest or incentive fees generated by our funds as compensation, and the amounts of carried interest and incentive fees earned by named executive officers are reflected as "All Other Compensation" in the Summary Compensation Table. Cash payments in respect of our Performance Plans for each named executive officer are determined on the basis of the percentage participation in the relevant investments previously allocated to that named executive officer, which percentage participations are established in January in each year in respect of the investments to be made in that year. The percentage participation for a named executive officer may vary from year to year and fund to fund due to several factors, and may include changes in the size and composition of the pool of Blackstone personnel participating in such Performance Plan in a given year, the performance of our various businesses, new developments in our businesses and product lines, and the named executive officer's leadership and oversight of the business or corporate function for which the named executive officer is responsible and such named executive officer's contributions with respect to our strategic initiatives and development. In addition, certain of our employees, including our named executive officers, may participate in profit sharing initiatives whereby these individuals may receive allocations of investment income from Blackstone's firm investments. Our employees, including our named executive officers, may also receive equity awards in our investment advisory clients and/or be allocated securities of such clients that we have received.

(a) *Carried Interest*. Distributions of carried interest in cash (or, in some cases, in-kind) to our named executive officers and other employees who participate in our Performance Plans relating to our carry funds depends on the realized proceeds and timing of the cash realizations of the investments owned by the carry funds in which they participate. Our carry fund agreements also set forth specified preconditions to a carried interest distribution, which typically include that there must have been a positive return on the relevant investment and that the fund must be above its carried interest hurdle rate. In addition, as described below, employees or senior managing directors may also be required to have fulfilled specified service requirements in order to be eligible to receive carried interest distributions. For our carry funds, carried interest distributions for the named executive officer's participation interests are generally made to the named executive officer following the actual realization of the investment, although a portion of such carried interest is held back by the firm in respect of any future "clawback" obligation related to the fund. In allocating participation interests in the carry pools, we have not historically taken into account or based such allocations on any prior or projected triggering of any "clawback" obligation related to any fund. To the extent any "clawback" obligation were to be triggered, carried interest previously distributed to a named executive officer would have to be returned to the limited partners of such fund, thereby reducing the named

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executive officer's overall compensation for any such year. Moreover, because a carried interest recipient (including Blackstone itself) may have to fund more than his or her respective share of a "clawback" obligation under the governing documents (generally, up to an additional 50%), there is the possibility that the compensation paid to a named executive officer for any given year could be significantly reduced or even negative in the event a "clawback" obligation were to arise.

Participation in carried interest generated by our carry funds for all participating named executive officers other than Mr. Schwarzman is subject to vesting. Vesting serves as an employment retention mechanism and thereby enhances the alignment of interests between a participant in our Performance Plans and the firm. For carried interest allocated on or prior to December 31, 2012 and carried interest earned in certain of our credit funds, each participating named executive officer (other than Mr. Schwarzman) vests in 25% of the carried interest related to an investment immediately upon the closing of the investment by a carry fund with the remainder vesting in equal installments on the first through third anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such three-year anniversary, in which case such executive officer is deemed 100% vested in the proceeds of such realizations). For carried interest allocated after December 31, 2012, the carried interest related to an investment vests in equal installments on the first through fourth anniversary of the closing of that investment. In addition, any named executive officer who is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See "— Non-Competition and Non-Solicitation Agreements — Retirement.") We believe that vesting of carried interest participation enhances the stability of our senior management team and provides greater incentives for our named executive officers to remain at the firm. Due to his unique status as a founder and the long-time chief executive officer of our firm, Mr. Schwarzman vests in 100% of his carried interest participation related to any investment by a carry fund upon the closing of that investment.

(b) *Incentive Fees*. Cash distributions of incentive fees to our named executive officers and other employees who participate in our Performance Plans relating to the funds that pay incentive fees depends on the performance of the investments owned by those funds in which they participate. For our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period and following the calculation of the profit split (if any) between the fund's general partner or investment adviser and the fund's investors, which occurs once a year (generally December 31 or June 30 of each year).

(c) *Investment Advisory Client Interests*. BXMT is an investment advisory client of Blackstone. Compensation we receive from investment advisory clients in the form of securities may be allocated to employees and senior managing directors. For example, in 2014, Mr. Schwarzman was allocated restricted shares of listed common stock of BXMT in connection with investment advisory services provided by Blackstone to BXMT. The value of the restricted shares allocated to Mr. Schwarzman is reflected as "All Other Compensation" in the Summary Compensation Table.

4. *Other Benefits*. Upon the consummation of our initial public offering in June 2007, we entered into a founding member agreement with our founder, Mr. Schwarzman, which provides specified benefits to him following his retirement. (See "— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Schwarzman Founding Member Agreement".) Mr. Schwarzman is provided certain security services, including home security systems and monitoring, and personal and related security services. These security services are provided for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Nevertheless, the expenses associated with these security services are reflected in the "All Other Compensation" column of the Summary Compensation Table below.

### ***Determination of Incentive Compensation***

As our founder, Mr. Schwarzman sets his own compensation and reserves final approval of each named executive officer's compensation, based in large part on recommendations from Mr. James. For 2014, these

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decisions were based primarily on Mr. Schwarzman's and Mr. James's assessment of such named executive officer's individual performance, operational performance for the segments or product lines in which the officer serves or for which he has responsibility, and the officer's potential to enhance investment returns for the investors in our funds and service to our advisory clients, and to contribute to long-term unitholder value. In evaluating these factors, Mr. Schwarzman and Mr. James relied upon their judgment to determine the ultimate amount of a named executive officer's annual cash bonus payment and participation in carried interest, incentive fees and investment advisory client interests that was necessary to properly induce the named executive officer to seek to achieve our objectives and reward a named executive officer in achieving those objectives over the course of the prior year. Key factors that Mr. Schwarzman considered in making such determination with respect to Mr. James were his service as President and Chief Operating Officer, his role in overseeing the growth and operations of the firm, and his leadership on the strategic direction of the firm generally. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Hill were his leadership and oversight of our Hedge Fund Solutions business, including his role in the oversight and development of new products and strategies, and his leadership on strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Tosi were his leadership and oversight of our global finance, treasury, technology and corporate development function and his role in strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman and Mr. James considered in making such determinations with respect to Mr. Finley were his leadership and oversight of our global legal and compliance functions, his role in positioning the firm to be compliant with the regulatory bodies that regulate and monitor the public company as well as our investment and advisory businesses, and his role in strategic initiatives undertaken by the firm. For 2014, Mr. Schwarzman and Mr. James also considered each named executive officer's prior-year annual cash bonus payments, indicative participation interests disclosed to the named executive officer at the beginning of the year, his allocated share of performance interests through participation in our Performance Plans, the appropriate balance between incentives for long-term and short-term performance, and the compensation paid to the named executive officer's peers within the firm.

### ***Minimum Retained Ownership Requirements***

The minimum retained ownership requirements for our named executive officers for equity awards granted in 2014 and prior years are described below under “— Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years — Minimum Retained Ownership Requirements and Transfer Restrictions.” The changes made to the minimum retained ownership requirements for equity awards to be granted in 2015 and future years are described above under “— Compensation Discussion and Analysis — Overview of Compensation Philosophy and Program — Personal Investment Obligations.”

### **Compensation Committee Report**

The board of directors of our general partner does not have a compensation committee. The executive committee of the board of directors identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this annual report.

*Stephen A. Schwarzman, Chairman*  
*Hamilton E. James*  
*J. Tomilson Hill*  
*Bennett J. Goodman*  
*Jonathan D. Gray*

### **Compensation Committee Interlocks and Insider Participation**

As described above, we do not have a compensation committee. Our founder Mr. Schwarzman makes all such compensation determinations based in large part on recommendations from Mr. James. For a description of certain transactions between us and Mr. Schwarzman, see “— Item 13. Certain Relationships and Related Transactions, and Director Independence.”



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### Summary Compensation Table

The following table provides summary information concerning the compensation of our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated employees who served as executive officers at December 31, 2014, for services rendered to us during 2014, 2013 and 2012. These individuals are referred to as our named executive officers in this annual report.

Name and Principal Position	Year	Salary	Bonus (a)	Stock Awards (b)	All Other Compensation (c)	Total
Stephen A. Schwarzman Chairman and Chief Executive Officer	2014	\$350,000	\$ —	\$ —	\$ 85,538,640	\$85,888,640
	2013	\$350,000	\$ —	\$ —	\$ 21,641,142	\$21,991,142
	2012	\$350,000	\$ —	\$ —	\$ 8,064,804	\$ 8,414,804
Hamilton E. James President Chief Operating Officer	2014	\$350,000	\$37,435,891	\$ 679,326	\$ 39,866,813	\$78,332,030
	2013	\$350,000	\$34,471,212	\$ —	\$ 8,233,031	\$43,054,243
	2012	\$350,000	\$30,127,889	\$ —	\$ 2,796,035	\$33,273,924
J. Tomilson Hill Vice Chairman	2014	\$350,000	\$13,557,310	\$11,243,928	\$ 789,052	\$25,940,290
	2013	\$350,000	\$11,056,098	\$14,515,676	\$ (49,282)	\$25,872,492
	2012	\$350,000	\$ 7,174,654	\$ 6,119,184	\$ 34,615	\$13,678,453
Laurence A. Tosi Chief Financial Officer	2014	\$350,000	\$ 6,632,140	\$ 2,724,339	\$ 5,265,348	\$14,971,827
	2013	\$350,000	\$ 7,254,261	\$ 729,067	\$ 2,245,049	\$10,578,377
	2012	\$350,000	\$ 6,359,759	\$ 801,975	\$ 731,535	\$ 8,243,269
John Finley Chief Legal Officer	2014	\$350,000	\$ 3,981,393	\$ 2,049,828	\$ 1,288,606	\$ 7,669,827
	2013	\$350,000	\$ 4,212,555	\$ 243,022	\$ 536,357	\$ 5,341,934

(a) The amounts reported in this column reflect the annual cash bonus payments made for performance in the indicated year.

The amounts reported as “bonus” for 2014 for Messrs. James, Hill, Tosi and Finley are shown net of their respective mandatory deferral pursuant to the Deferred Compensation Plan. The deferred amounts for 2014 were as follows: Mr. James, \$674,053; Mr. Hill, \$11,156,671; Mr. Tosi, \$1,667,918 and Mr. Finley, \$998,642. For additional information on the Deferred Compensation Plan, see “— Nonqualified Deferred Compensation for 2014 — Narrative to Nonqualified Deferred Compensation for 2014 Table.”

(b) The reference to “stock” in this table refers to deferred restricted Blackstone Holdings Partnership Units or deferred restricted common units. The amounts reported in this column represent the grant date fair value of stock awards granted for financial statement reporting purposes in accordance with GAAP pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data”.

Amounts reported for 2014 reflect the following deferred equity awards granted on January 16, 2015 for 2014 performance pursuant to the Deferred Compensation Plan: Mr. James, 20,176 deferred restricted common units with a grant date fair value of \$679,326; Mr. Hill, 333,945 deferred restricted common units with a grant date fair value of \$11,243,928; Mr. Tosi, 49,925 deferred restricted common units with a grant date fair value of \$1,680,975 and Mr. Finley, 29,892 deferred restricted common units with a grant date fair value of \$1,006,464. The grant date fair value of the stock award reflecting the deferred bonus amount is computed in accordance with GAAP and generally differs from the dollar amount of the portion of the bonus that is required to be deferred under the Deferred Compensation Plan. For additional information on the Deferred Compensation Plan, see “— Nonqualified Deferred Compensation for 2014 — Narrative to Nonqualified Deferred Compensation for 2014 Table.”

Amounts reported for 2014 also reflect the following discretionary equity awards granted in 2014 under the 2007 Equity Incentive Plan: Mr. Tosi, 31,071 deferred restricted Blackstone Holdings Partnership Units and Mr. Finley, 31,071 deferred restricted Blackstone Holdings Partnership Units.

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- (c) Amounts reported for 2014 include distributions to the named executive officers in 2014, whether in cash or in-kind, in respect of carried interest or incentive fee allocations relating to our Performance Plans as follows: \$84,835,922 for Mr. Schwarzman, \$39,866,813 for Mr. James, \$789,052 for Mr. Hill, \$5,265,348 for Mr. Tosi and \$1,288,606 for Mr. Finley, respectively. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. For 2014, Messrs. Schwarzman and James were the only named executive officers who received such in-kind distributions. We have determined to present compensation relating to carried interest and incentive fees within the Summary Compensation Table in the year in which such compensation is earned (that is, is actually received or receivable) by the named executive officer under the terms of the relevant Performance Plan. This compensation is generally earned in the same year in which such compensation is actually received by such named executive officer, although the named executive officer may in limited circumstances receive the compensation subsequent to the year in which it was earned (for example, it becomes payable at the end of 2014 but is paid in 2015). Accordingly, the amounts presented in the table differ from the compensation expense recorded by us on an accrual basis for such year in respect of carried interest and incentive fees allocable to a named executive officer, which accrued amounts for 2014 are separately disclosed in this footnote to the Summary Compensation Table. We believe that the presentation of the actual amounts of carried interest- and incentive fee-related compensation earned by a named executive officer during the year, instead of the amounts of compensation expense we have recorded on an accrual basis, most appropriately reflects the actual compensation received by the named executive officer and represents the amount most directly aligned with the named executive officer's actual performance. By contrast, the amount of compensation expense accrued in respect of carried interest and incentive fees allocable to a named executive officer can be highly volatile from year to year, with amounts accrued in one year being reversed in a following year, and vice versa, causing such amounts to be less useful as a measure of the compensation actually earned by a named executive officer in any particular year.

To the extent compensation expense recorded by us on an accrual basis in respect of carried interest or incentive fee allocations (rather than cash payments) were to be included for 2014, the amounts would be \$157,324,146 for Mr. Schwarzman, \$84,392,480 for Mr. James, \$4,063,812 for Mr. Hill, \$9,086,321 for Mr. Tosi and \$2,853,548 for Mr. Finley. For financial statement reporting purposes, the accrual of compensation expense is equal to the amount of carried interest and incentive fees related to performance fee revenues as of the last day of the relevant period as if the performance fee revenues in the funds generating such carried interest or incentive fees were realized as of the last day of the relevant period.

With respect to Mr. Schwarzman, amounts reported for 2014 also restricted shares of listed common stock of BXMT allocated to him with a value of \$613,876 based on the closing price of BXMT's common stock on the date of the award. These restricted shares will vest over three years with one-sixth of the shares vesting at the end of the second quarter after the date of the award and the remaining shares vesting in ten equal quarterly installments thereafter.

With the exception of \$88,842 of expenses related to security services for Mr. Schwarzman in 2014, perquisites and other personal benefits to the named executive officers were less than \$10,000 and information regarding perquisites and other personal benefits has therefore not been included. As noted above under "— Compensation Discussion and Analysis — Compensation Elements for Named Executive Officers — Other Benefits," we consider the expenses for security services for Mr. Schwarzman to be for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Mr. Schwarzman makes business and personal use of a car and driver and he and members of his family also make business and personal use of an airplane in which we have a fractional interest and in each case he bears the full cost of such personal usage. In addition, certain Blackstone personnel administer personal matters for Mr. Schwarzman and certain matters for the Stephen A. Schwarzman Education Foundation ("SASEF"), and Mr. Schwarzman and SASEF, respectively, bear the full incremental cost to us of such personnel. Mr. James makes occasional personal use of an airplane in which we have a fractional interest and he bears the full cost of such personal usage. There is no incremental expense incurred by us in connection with the use of any car and driver, airplane or personnel by either of Messrs. Schwarzman or James, as described above.

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During 2014, there were no cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization.

### Grants of Plan-Based Awards in 2014

The following table provides information concerning unit awards granted in 2014 or, for deferred restricted common units granted under the Deferred Compensation Plan, with respect to 2014, to our named executive officers:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (a)	Grant Date Fair Value of Stock and Option Awards (a)
Stephen A. Schwarzman	—	—	\$ —
Hamilton E. James	1/16/2015	20,176(b)	\$ 679,326
J. Tomilson Hill	1/16/2015	333,945(b)	\$11,243,928
Laurence A. Tosi	1/16/2015	49,925(b)	\$ 1,680,975
	7/1/2014	31,071(c)	\$ 1,043,364
John Finley	1/16/2015	29,892(b)	\$ 1,006,464
	7/1/2014	31,071(c)	\$ 1,043,364

- (a) The references to “stock” or “shares” in this table refer to deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units.
- (b) Represents deferred restricted common units granted under the Deferred Compensation Plan for 2014 performance. (See “— Nonqualified Deferred Compensation for 2014 — Narrative to Nonqualified Deferred Compensation for 2014 Table.”)
- (c) Represents deferred restricted Blackstone Holdings Partnership Units granted under our 2007 Equity Incentive Plan. (See “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years.”)

### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014

#### *Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years*

Our pre-IPO owners, including our named executive officers other than Mr. Tosi and Mr. Finley, received Blackstone Holdings Partnership Units in the reorganization in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings. Each of Mr. Tosi and Mr. Finley received grants of Blackstone Holdings Partnership Units following the commencement of their employment with us under our 2007 Equity Incentive Plan. Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, these partnership units may be exchanged for our common units as described under “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement” below.

*Vesting Provisions*. The Blackstone Holdings Partnership Units received by our named executive officers (other than Mr. Tosi and Mr. Finley) in the reorganization have the following vesting provisions:

- 25% of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested, with the remaining 75% vesting, subject to Mr. Schwarzman’s continued employment, in equal installments on each anniversary of our initial public offering (June 21, 2007) over four years. All of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for his interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested; and

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- 25% of the Blackstone Holdings Partnership Units received by each of Messrs. James and Hill in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested. The remaining units vest, subject to the named executive officer's continued employment, in equal installments on each anniversary of our initial public offering over up to eight years. All of the Blackstone Holdings Partnership Units received by Messrs. James and Hill in the reorganization in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested.

The deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2008 under the 2007 Equity Incentive Plan were subject to the following vesting terms: (a) 100% of the Blackstone Holdings Partnership Units underlying the sign-on grant to Mr. Tosi (155,764 units) vested on the fifth anniversary of the commencement date of his service with the firm (September 2, 2008) and (b) the deferred restricted Blackstone Holdings Partnership Units underlying his make-whole grant (338,381 units) vested annually in varying increments on each January 15 from 2009 to 2012. The 699,845 and 50,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2009 and 2010, respectively, under the 2007 Equity Incentive Plan vest in equal installments over five years on each anniversary of the January 15, 2009 and January 15, 2010 grant date, respectively. The 500,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2010 under the 2007 Equity Incentive Plan vest in equal installments over five years on each anniversary of his hire date (September 1, 2010). The 344,154 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2011 under the 2007 Equity Incentive Plan will vest on January 1, 2016. The 61,360 and 20,454 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Mr. Finley, respectively, in 2012 under the 2007 Equity Incentive Plan will vest 20% on July 1, 2015, 30% on July 1, 2016 and 50% on July 1, 2017. The 34,734 and 11,578 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Mr. Finley, respectively, in 2013 under the 2007 Equity Incentive plan vest 20% on July 1, 2016, 30% on July 1, 2017 and 50% on July 1, 2018. The 31,071 deferred restricted Blackstone Holdings Partnership Units granted to both Mr. Tosi and Mr. Finley in 2014 under the 2007 Equity Incentive plan vest 20% on July 1, 2017, 30% on July 1, 2018 and 50% on July 1, 2019.

Except as described below, unvested partnership units are generally forfeited upon termination of employment. In connection with a named executive officer's termination of employment due to qualifying retirement, a named executive officer will generally vest in 50% of their unvested partnership units. (See "Non-Competition and Non-Solicitation Agreements — Retirement.") With respect to Mr. Tosi and Mr. Finley, the unvested partnership units granted to them in 2013 and 2014 as well as any unvested partnership units granted to them pursuant to their respective senior managing director agreements will become fully vested if they are terminated by us without cause. A named executive officer who leaves our firm to accept specified types of positions in government service will continue to vest in units as if he had not left our firm during the period of government service. In addition, upon the death or permanent disability of a named executive officer, all of his unvested partnership units held at that time will vest immediately. Further, in the event of a change in control (defined in the Blackstone Holdings Partnership agreements as the occurrence of any person becoming the general partner of The Blackstone Group L.P. other than a person approved by the current general partner), any unvested partnership units will automatically be deemed vested as of immediately prior to such change in control.

All vested and unvested Blackstone Holdings Partnership Units (and our common units received in exchange for such Blackstone Holdings Partnership Units) held by a named executive officer will be immediately forfeited in the event he materially breaches any of his restrictive covenants set forth in the non-competition and non-solicitation agreement outlined under "Non-Competition and Non-Solicitation Agreements" or his service is terminated for cause.

All of our named executive officers are subject to the following minimum retained ownership requirements and transfer restrictions in respect of all Blackstone Holdings Partnership Units received by them as part of the reorganization or deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units received by them under the 2007 Equity Incentive Plan. We refer to these Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units as "subject units."

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*Minimum Retained Ownership Requirements* . For subject units granted in 2014 and prior years, while employed by us and generally for one year following the termination of employment, each of our named executive officers (except as otherwise provided below) will be required to continue to hold (and may not transfer) at least 25% of all vested subject units (other than vested units awarded under our Deferred Compensation Plan) received by him. The requirement that one continue to hold at least 25% of such vested units is subject to the qualification in Mr. Schwarzman's case that in no event will he be required to hold units having a market value greater than \$1.5 billion. Each of our named executive officers is in compliance with these minimum retained ownership requirements.

*Transfer Restrictions* . None of our named executive officers may transfer subject units at any time prior to December 31, 2015 other than pursuant to transactions or programs approved by our general partner.

This transfer restriction applies to sales, pledges of subject units, grants of options, rights or warrants to purchase subject units or swaps or other arrangements that transfer to another, in whole or in part, any of the economic consequences of ownership of the subject units other than as approved by our general partner. We expect that our general partner will approve pledges or transfers to personal planning vehicles beneficially owned by the families of our pre-IPO owners and charitable gifts, provided that the pledgee, transferee or donee agrees to be subject to the same transfer restrictions (except as specified above with respect to Mr. Schwarzman). Transfers to Blackstone are also exempt from the transfer restrictions.

The minimum retained ownership requirements and transfer restrictions set forth above will continue to apply generally for one year following the termination of employment of a named executive officer other than Mr. Schwarzman for any reason, except that the transfer restrictions set forth above will lapse upon death or permanent disability. All of the foregoing transfer restrictions will lapse in the event of a change in control (as defined above).

The Blackstone Holdings Partnership Units received by other Blackstone personnel in the reorganization and pursuant to the 2007 Equity Incentive Plan are also generally subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to our named executive officers other than Mr. Schwarzman, although non-senior managing directors are also generally subject to vesting in respect of a portion of the Blackstone Holdings Partnership Units received by such personnel in the reorganization in exchange for their interests in carried interest.

### ***Schwarzman Founding Member Agreement***

Upon the consummation of our initial public offering, we entered into a founding member agreement with Mr. Schwarzman. Mr. Schwarzman's agreement provides that he will remain our Chairman and Chief Executive Officer while continuing service with us and requires him to give us six months' prior written notice of intent to terminate service with us. The agreement provides that following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including that he will be permitted until the third anniversary of his retirement date to retain his current office and will be provided with a car and driver. Commencing on the third anniversary of his retirement date and continuing until the tenth anniversary thereof, we will provide him with an appropriate office if he so requests. Additionally, Mr. Schwarzman will be provided with an assistant and access to office services during the ten-year period following his retirement date.

Mr. Schwarzman will also continue to receive health benefits following his retirement until his death, subject to his continuing payment of the related health insurance premiums consistent with current policies. Additionally, before his retirement and during the ten-year period thereafter, Mr. Schwarzman and any foundations he may establish may continue to invest in our investment funds on a basis generally consistent with that of other partners.

### ***Senior Managing Director Agreements***

Upon the consummation of our initial public offering, we entered into substantially similar senior managing director agreements with each of our named executive officers and other senior managing directors other than our

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founder, Mr. Tosi and Mr. Finley. Senior managing directors who have joined the firm after our initial public offering (including Mr. Tosi and Mr. Finley) have also entered into senior managing director agreements. The agreements generally provide that each senior managing director will devote substantially all of his or her business time, skill, energies and attention to us in a diligent manner. Each senior managing director will be paid distributions and benefits in amounts determined by Blackstone from time to time in its sole discretion. The agreements require us to provide the senior managing director with 90 days' prior written notice prior to terminating his or her service with us (other than a termination for cause). Additionally, the agreements require each senior managing director to give us 90 days' prior written notice of intent to terminate service with us and require the senior managing director to be placed on a 90-day period of "garden leave" following the senior managing director's termination of service (as further described under the caption "— Non-Competition and Non-Solicitation Agreements" below).

### *Senior Managing Director Agreement with Mr. Tosi*

In connection with the commencement of Mr. Tosi's employment with us in September 2008, we entered into a senior managing director agreement with him that included specific compensation terms. Those terms included his entitlement to three awards of deferred restricted Blackstone Holdings Partnership Units under our 2007 Equity Incentive Plan. The first award was a sign-on grant of 155,764 deferred restricted Blackstone Holdings Partnership Units, which was granted soon after the commencement of his employment with us. The second grant was a "make-whole" payment of 338,381 deferred restricted Blackstone Holdings Partnership Units, representing the value of compensation-related items from Merrill Lynch & Co., Inc. that Mr. Tosi forfeited as a result of his departure from that firm, which was granted soon after the commencement of his employment with the firm. The third grant of 699,845 deferred restricted Blackstone Holdings Partnership Units was in respect of a guaranteed equity grant for 2008 that was awarded on January 15, 2009. The unvested portion of Mr. Tosi's equity-based awards will be terminated once he is no longer a senior managing director of Blackstone, except that the then-outstanding but unvested portion of his awards will become fully vested if (a) his service with us is terminated by us without cause or as a result of his death or permanent disability or (b) there is a "change in control" (as defined in the partnership agreements of Blackstone Holdings). Mr. Tosi is generally subject to the same transfer restrictions and forfeiture terms with respect to his Blackstone Holdings Partnership Units as those that apply to the Blackstone Holdings Partnership Units held by the firm's other senior managing directors. The agreement also provides that Mr. Tosi will be permitted to invest in and alongside Blackstone's carry funds and in the firm's hedge funds as long as he serves as a senior managing director, subject to the same limitations on exclusions from management fees or incentive fees that are applicable to the firm's other senior managing directors. Mr. Tosi has also executed a senior managing director non-competition and non-solicitation agreement as part of the agreement. The terms of such non-competition and non-solicitation agreement are substantially the same as the terms included in the non-competition and non-solicitation agreements signed by the other senior managing directors and are described under the caption "— Non-Competition and Non Solicitation Agreements" below.

### *Senior Managing Director Agreement with Mr. Finley*

In connection with the commencement of Mr. Finley's employment with us on September 1, 2010, we entered into a senior managing director agreement with him that included specific compensation terms. As part of Mr. Finley's senior managing director agreement, he received an equity award on October 1, 2010 of 500,000 deferred restricted Blackstone Holdings Partnership Units under our 2007 Equity Incentive Plan. These deferred restricted Blackstone Holdings Partnership Units vest in equal installments over five years on each anniversary of the hire date. The unvested portion of Mr. Finley's award will be terminated once he is no longer a senior managing director of Blackstone, except that the then-outstanding but unvested portion of his awards will become fully vested if (a) his service with us is terminated by us without cause or as a result of his death or permanent disability or (b) there is a "change in control" (as defined in the partnership agreements of Blackstone Holdings). Mr. Finley is generally subject to the same transfer restrictions and forfeiture terms with respect to his Blackstone Holdings Partnership Units as those that apply to the Blackstone Holdings Partnership Units held by the firm's other senior managing directors. The agreement also provides that Mr. Finley will be permitted to invest in and alongside Blackstone's carry funds and in the firm's hedge funds as long as he serves as a senior managing director, subject to

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the same limitations on exclusions from management fees or incentive fees that are applicable to the firm's other senior managing directors. Mr. Finley has also executed a senior managing director non-competition and non-solicitation agreement as part of the agreement. The terms of such non-competition and non-solicitation agreement are substantially the same as the terms included in the non-competition and non-solicitation agreements signed by the other senior managing directors and are described under the caption "— Non-Competition and Non-Solicitation Agreements" below.

### Outstanding Equity Awards at 2014 Fiscal Year End

The following table provides information regarding outstanding unvested equity awards made to our named executive officers as of December 31, 2014:

Name	Stock Awards (a)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James (c)	4,111,528	\$139,092,992
J. Tomilson Hill (c)	1,616,276	\$ 54,678,617
Laurence A. Tosi	531,244	\$ 17,963,997
John Finley	192,995	\$ 6,524,238

- (a) The references to "stock" or "shares" in this table refer to unvested Blackstone Holdings Partnership Units, unvested deferred restricted Blackstone Holdings Partnership Units and unvested deferred restricted common units granted under the Deferred Compensation Plan (including deferred restricted common units granted to Messrs. Tosi and Finley in 2015 in respect of 2014 performance). The vesting terms of these awards are described under the captions "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years" above and "— Nonqualified Deferred Compensation for 2014 — Narrative to Nonqualified Deferred Compensation for 2014 Table" below.
- (b) The dollar amounts shown in this column were calculated by multiplying the number of unvested Blackstone Holdings Partnership Units, unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by the named executive officer by the closing market price of \$33.83 per Blackstone common unit on December 31, 2014, the last trading day of 2014, other than the deferred restricted common units granted in 2015 in respect of 2014 performance, which are valued as of the date of their grant.
- (c) This table does not reflect (1) undelivered deferred restricted common units that were granted to Messrs. James and Hill in 2015 pursuant to the Deferred Compensation Plan in respect of 2014 performance and that were considered vested on the date of grant due to their retirement eligibility and (2) mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted to Mr. Hill pursuant to the Deferred Compensation Plan in respect of prior years. These deferred restricted common units are reflected in the Nonqualified Deferred Compensation for 2014 Table below.

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### Option Exercises and Stock Vested in 2014

The following table provides information regarding the number of outstanding initially unvested equity awards made to our named executive officers that vested during 2014 or, for deferred restricted common units granted to Messrs. James and Hill under the Deferred Compensation Plan, with respect to 2014:

Name	Stock Awards (a)	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James (c)	4,131,710	\$137,963,446
J. Tomilson Hill (d)	1,697,221	\$ 56,763,714
Laurence A. Tosi	149,969	\$ 4,842,997
John Finley	100,000	\$ 3,353,000

- (a) The references to “stock” or “shares” in this table refer to Blackstone Holdings Partnership Units, deferred restricted Blackstone Holdings Partnership Units and our deferred restricted common units.
- (b) The value realized on vesting is based on the closing market prices of our common units on the day of vesting.
- (c) For Mr. James, includes 20,176 deferred restricted common units granted pursuant to the Deferred Compensation Plan, with a value realized on vesting of \$679,326, which were all considered vested on the date of grant due to Mr. James’s retirement eligibility. These deferred restricted common units are scheduled to be delivered in equal annual installments over the three year deferral period and are reflected in the Nonqualified Deferred Compensation for 2014 Table below.
- (d) For Mr. Hill, includes 333,945 deferred restricted common units granted pursuant to the Deferred Compensation Plan, with a value realized on vesting of \$11,243,928, which were all considered vested on the date of grant due to Mr. Hill’s retirement eligibility. These deferred restricted common units are scheduled to be delivered in equal annual installments over the three year deferral period and are reflected in the Nonqualified Deferred Compensation for 2014 Table below.

### Nonqualified Deferred Compensation for 2014

The following table provides (1) for Messrs. James and Hill, information with respect deferred restricted common units that were granted pursuant to the Deferred Compensation Plan in respect of 2014 performance and that were considered vested on the date of grant due to their retirement eligibility, but upon which the underlying common units have not yet been delivered and (2) for Mr. Hill, information with respect to mandatorily deferred and vested, but undelivered, deferred restricted common units that were granted pursuant to the Deferred Compensation Plan in respect of prior years.

Name	Executive Contributions in 2014	Registrant Contributions in 2014 (a)	Aggregate Earnings (Losses) in 2014 (b)	Aggregate Withdrawals/ Distributions (c)	Aggregate Balance at December 31, 2014 (d)
Stephen A. Schwarzman	\$ —	\$ —	\$ —	\$ —	\$ —
Hamilton E. James	\$ —	\$ 679,326	\$ —	\$ —	\$ 679,326
J. Tomilson Hill	\$ —	\$11,243,928	\$1,734,797	\$ 12,101,417	\$38,426,299
Laurence A. Tosi	\$ —	\$ —	\$ —	\$ —	\$ —
John Finley	\$ —	\$ —	\$ —	\$ —	\$ —

- (a) This column represents the mandatory deferral of a portion Mr. James’s and Mr. Hill’s annual cash bonus for 2014 into 20,176 and 333,945 deferred restricted common units, respectively, pursuant to our Deferred Compensation Plan. These units were granted to Messrs. James and Hill in 2015 in respect of 2014 performance. These deferred restricted common units are deemed vested due to retirement eligibility, but



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will be delivered in equal annual installments over three years. These amounts are also reflected in the “Stock Awards” column of the Summary Compensation Table for the last completed fiscal year (see footnote (b) to the Summary Compensation Table).

- (b) This column represents the earnings/(losses) during 2014 on deferred restricted common units granted to Mr. Hill pursuant to our Deferred Compensation Plan through the earlier of their delivery or December 31, 2014. No portion of any earnings would be considered above-market or preferential and, accordingly, no earnings are reflected in the Summary Compensation Table.
- (c) Represents the value of 381,147 deferred restricted common units that were delivered to Mr. Hill in 2014 based on the closing market price per Blackstone common unit on the date(s) of delivery.
- (d) Represents the value as of December 31, 2014 of 20,176 deferred restricted common units granted to Mr. James and 1,137,444 deferred restricted common units granted to Mr. Hill. With respect to Mr. Hill, \$17,878,241 has been reported in the “Stock Awards” column of the Summary Compensation Table in previous years. The values set forth in this column are based on the closing market price of \$33.83 per Blackstone common unit on December 31, 2014, other than the units granted in 2015 in respect of 2014 performance, which are valued as of the date of their grant.

### *Narrative to Nonqualified Deferred Compensation for 2014 Table*

In 2007, we established our Deferred Compensation Plan (which we also refer to as our “Bonus Deferral Plan”) for certain eligible employees of Blackstone and certain of its affiliates in order to provide such eligible employees with a pre-tax deferred incentive compensation opportunity and to enhance the alignment of interests between such eligible employees and Blackstone and its affiliates. The Deferred Compensation Plan is an unfunded, nonqualified deferred compensation plan which provides for the automatic, mandatory deferral of a portion of each participant’s annual cash bonus payment.

At the end of each year, the Plan Administrator (as defined in the Deferred Compensation Plan) selects plan participants in its sole discretion and notifies such individuals that they have been selected to participate in the Deferred Compensation Plan for such year. Participation is mandatory for those employees selected by the Plan Administrator to be participants. An individual, if selected, may not decline to participate in the Deferred Compensation Plan and an individual who is not so selected may not elect to participate in the Deferred Compensation Plan. The selection of participants is made on an annual basis; an individual selected to participate in the Deferred Compensation Plan for a given year may not necessarily be selected to participate in a subsequent year. For 2014, all employees were deemed eligible to participate in the Deferred Compensation Plan, with the deferred amount (if any) determined in accordance with the table described below. Accordingly, Messrs. James, Hill, Tosi and Finley each participated in the Deferred Compensation Plan for 2014.

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In respect of the deferred portion of his or her annual cash bonus payment, each participant receives deferral units which represent rights to receive in the future a specified amount of common units or Blackstone Holdings Partnership Units or other equity-based awards under our 2007 Equity Incentive Plan, subject to vesting provisions described below. The amount of each participant's annual cash bonus payment deferred under the Deferred Compensation Plan is calculated pursuant to a deferral rate table using the participant's total annual incentive compensation, which generally includes such participant's annual cash bonus payment and any incentive fees earned in connection with our investment funds, and is subject to certain adjustments, including reductions for mandatory contributions to our investment funds. For deferrals of 2014 annual cash bonus payments, the deferral percentage was calculated on the basis set forth in the following table (or such other table that may be adopted by the Plan Administrator):

<u>Portion of Annual Incentive Compensation</u>	<u>Marginal Deferral Rate Applicable</u>	<u>Effective Deferral Rate for Entire</u>
	<u>to Such Portion</u>	<u>Annual Bonus (a)</u>
\$0 – 100,000	0%	0.0%
\$100,001 – 200,000	15%	7.5%
\$200,001 – 500,000	20%	15.0%
\$500,001 – 750,000	30%	20.0%
\$750,001 – 1,250,000	40%	28.0%
\$1,250,001 – 2,000,000	45%	34.4%
\$2,000,001 – 3,000,000	50%	39.6%
\$3,000,001 – 4,000,000	55%	43.4%
\$4,000,001 – 5,000,000	60%	46.8%
\$5,000,000 +	65%	52.8%

(a) Effective deferral rates are shown for illustrative purposes only and are based on an annual cash bonus payment equal to the maximum amount in the range shown in the far left column (which is assumed to be \$7,500,000 for the last range shown).

*Mandatory Deferral Awards*. Generally, deferral units are satisfied by delivery of our common units in equal annual installments over the deferral period, which was three years for grants made in respect of years prior to 2012 and four years for grants made in respect of years 2012 and 2013 (with no partial-year delivery). In 2015, the Deferred Compensation Plan was amended to return the deferral period to three years for grants made in respect of 2014 and subsequent years. Delivery of our common units underlying vested deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, any undelivered deferral units (vested and unvested) will become immediately deliverable. With respect to deferral units granted in respect of 2013 and prior years, if the participant's employment is terminated without cause or because of resignation, qualifying retirement or disability, the participant's deferral units will continue to be delivered over the applicable deferral period. However, if, following a termination of employment without cause or because of resignation, qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement (or, in the case of a resignation, engages in a competitive business (as such term is defined in his or her employment agreement)), then any deferral units that remain undelivered as of the date of such violation, will be immediately forfeited. In 2015, the Deferred Compensation Plan was amended to modify the terms of the mandatorily deferred restricted common units to provide that unvested bonus deferral awards in respect of 2014 and subsequent years will now be forfeited upon resignation, will immediately vest and be delivered if the participant's employment is terminated without cause or because of disability and, in connection with a qualifying retirement, will continue to vest and be delivered over the applicable deferral period, subject to forfeiture if the participant violates any applicable provision of his or her employment agreement or engages in any competitive activity (as such term is defined in the Deferred Compensation Plan).

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The 49,925 and 29,892 deferred restricted common units granted under the Deferred Compensation Plan to Mr. Tosi and Mr. Finley in 2015 for 2014 performance, respectively, under the Deferred Compensation Plan, vest 33.3% on January 16, 2016, 33.3% on January 16, 2017 and 33.4% on January 16, 2018.

*Premium Awards* . Prior to deferrals in respect of 2014 performance, each plan participant was eligible to receive a premium award in the amount equal to a percentage of his or her deferral amount. The percentage was selected by the Plan Administrator. Generally, except in respect of 2012, the premium award percentage was 20%. Generally, the premium award percentage in respect of 2012 was 25%. The deferral amount plus the premium award yielded the total amount of deferral units that a participant was awarded for any given year. The entire premium portion of such deferral units is, with specified exceptions, subject to continued employment of such participant through the end of the applicable deferral period and vests and is delivered at the end of such deferral period. As is the case with respect to the mandatory deferral units, delivery of our common units underlying the vested premium portion of the participant's deferral units is delayed until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. If the participant's employment is terminated for cause, the premium portion of the participant's undelivered deferral units (vested and unvested) will be immediately forfeited. In connection with a participant's termination of employment without cause or because of resignation, the entire unvested premium portion of the participant's deferral units will be immediately forfeited. In connection with a participant's termination of employment due to qualifying retirement, 50% of the unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. In connection with a participant's termination of employment due to disability, the entire unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. However, if, following a termination of employment because of qualifying retirement or disability, the participant violates any applicable provision of his or her employment agreement, including specified restrictive covenants such as a non-compete, then any such deferral units that remain undelivered as of the date of such violation will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, the entire unvested premium portion of the participant's deferral units will immediately vest and become deliverable. In 2015, the Deferred Compensation Plan was amended to replace the premium award component of the plan with the payment of current cash dividend equivalents on both vested and unvested deferred awards beginning with awards granted in 2015 in respect of 2014. As a result, no premium awards were granted in 2015 in respect of 2014 performance.

The 253,000 deferred restricted common units granted to Mr. Hill as premium awards under the Deferred Compensation Plan, vest 35.2% on January 1, 2015, 32.5% on January 1, 2017 and 32.3% on January 13, 2018.

### **Potential Payments Upon Termination of Employment or Change in Control**

Upon a change of control event where any person (other than a person approved by our general partner) becomes our general partner or a termination of employment because of death, any unvested Blackstone Holdings Partnership Units, unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units held by any of our named executive officers will automatically be deemed vested as of immediately prior to such occurrence of such change of control or such termination of employment. Had such a change of control or such a termination of employment occurred on December 31, 2014, the last business day of 2014, each of our named executive officers would have vested in the following numbers of Blackstone Holdings Partnership Units and deferred restricted common units, having the following values based on our closing market price of \$33.83 per Blackstone common unit on December 31, 2014: Mr. Schwarzman had no outstanding unvested units at December 31, 2014; Mr. James — 4,111,528 Blackstone Holdings Partnership Units with a value of \$139,092,992; Mr. Hill — 1,363,276 Blackstone Holdings Partnership Units and 253,000 deferred restricted common units, representing the premium portion of his deferred restricted common units, with an aggregate value of \$54,678,617; Mr. Tosi — 481,319 Blackstone Holdings Partnership Units and 49,925 deferred restricted common units with an aggregate value of \$17,971,985 and Mr. Finley — 163,103 Blackstone Holdings Partnership Units and 29,892 deferred restricted common units with an aggregate value of \$6,529,020. In addition, the Deferred Compensation Plan provides that upon a change in control or termination of the participant's employment because of death, any fully vested but undelivered deferred restricted common units will become immediately deliverable.

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Therefore, had a change of control or such termination of employment occurred on December 31, 2014, Mr. James and Mr. Hill would also have been entitled to accelerated delivery of the 20,176 and 333,945 deferred restricted common units, respectively, that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility. Mr. Hill would also have been entitled to accelerated delivery of his 803,499 mandatorily deferred and vested, but undelivered, deferred restricted common units granted to him under the Deferred Compensation Plan outstanding as of December 31, 2014.

Upon a termination of employment because of disability, any unvested Blackstone Holdings Partnership Units, unvested deferred restricted Blackstone Holdings Partnership Units or unvested deferred restricted common units granted under the Deferred Compensation Plan in respect of 2014 will also automatically be deemed vested. However, with respect to the premium portion of deferred restricted common units granted under the Deferred Compensation Plan in respect of 2013 and prior years, in connection with a participant's termination of employment due to disability, such deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to the participant not violating any applicable provision of his or her employment agreement. Therefore, had a termination of employment because of disability occurred on December 31, 2014, each of our named executive officers would have vested in the numbers of Blackstone Holdings Partnership Units set forth in the paragraph immediately above, having the values set forth above, but Mr. Hill would not have immediately vested in his 253,000 unvested deferred restricted common units, which represent the premium portion of his deferred restricted common units. In addition, Mr. James and Mr. Hill would also have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth in the paragraph immediately above that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility.

In connection with a named executive officer's termination of employment due to qualifying retirement, a named executive officer will generally vest in 50% of their unvested Blackstone Holdings Partnership Units or unvested deferred restricted Blackstone Holdings Partnership Units granted in 2014 and prior years. (See "Non-Competition and Non-Solicitation Agreements — Retirement.") As of December 31, 2014, Mr. Hill and Mr. James were retirement eligible. Therefore, if Mr. Hill and Mr. James had retired on December 31, 2014, then Mr. Hill would have vested in 681,638 Blackstone Holdings Partnership Units with a value of \$23,059,814 and Mr. James would have vested in 2,055,764 Blackstone Holdings Partnership Units with a value of \$69,546,496, in each case based on our closing market price of \$33.83 per Blackstone common unit on December 31, 2014. In addition, if Mr. Hill had retired on December 31, 2014, then the Deferred Compensation Plan provides that 50% of the unvested premium portion of his deferred restricted common units would continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to forfeiture of any deferral units which remain undelivered as of the date of the breach of any applicable provision of his employment agreement.

Upon a termination of Mr. Tosi's or Mr. Finley's employment without cause, the unvested deferred restricted Blackstone Holdings Partnership Units granted to them in 2013 and 2014, any unvested deferred restricted Blackstone Holdings Partnership Units granted to them pursuant to their respective senior managing director agreements and the deferred restricted common units grant to them under the Deferred Compensation Plan in respect of 2014 will become fully vested. Had such a termination without cause occurred on December 31, 2014, Mr. Tosi and Mr. Finley would have vested in the following numbers of deferred restricted Blackstone Holdings Partnership Units and deferred restricted common units, having the following values based on our closing market price of \$33.83 per Blackstone common unit on December 31, 2014: Mr. Tosi — 65,805 Blackstone Holdings Partnership Units and 49,925 deferred restricted common units with an aggregate value of \$3,915,146 and Mr. Finley — 142,649 Blackstone Holdings Partnership Units and 29,892 deferred restricted common units with an aggregate value of \$5,837,062. In addition, Mr. James and Mr. Hill would also have been entitled to accelerated delivery in the numbers of deferred restricted common units set forth above in the first paragraph of this section that were granted to them pursuant to the Deferred Compensation Plan and were considered vested on the date of grant due to their retirement eligibility.

In addition, upon the death or disability of any named executive officer who participates in the carried interest of our carry funds, the named executive officer will be deemed 100% vested in any unvested portion of carried interest in our carry funds. Furthermore, any named executive officer that is retirement eligible will automatically

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vest in 50% of their otherwise unvested carried interest allocation upon retirement. (See “— Non-Competition and Non-Solicitation Agreements — Retirement.”) As of December 31, 2014, Mr. James and Mr. Hill were retirement eligible for purposes of their carried interest allocations.

In addition, pursuant to Mr. Schwarzman’s Founding Member Agreement described above under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Schwarzman Founding Member Agreement,” following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including an assistant during the ten-year period following his retirement and a car and driver during the three-year period following his retirement. As of December 31, 2014, the aggregate present value of these expected costs was \$1.2 million, for which approximately \$180,000, \$200,000 and \$50,000 were expensed for financial statement purposes in each of the years ended December 31, 2014, 2013 and 2012, respectively.

### Non-Competition and Non-Solicitation Agreements

Upon the consummation of our initial public offering, we entered into a non-competition and non-solicitation agreement with our founder, our other senior managing directors, most of our other professional employees and specified senior administrative personnel to whom we refer collectively as “Contracting Employees.” Contracting Employees who have joined the firm after our initial public offering, such as Mr. Tosi and Mr. Finley, have also executed non-competition and non-solicitation agreements. The following are descriptions of the material terms of each such non-competition and non-solicitation agreement. With the exception of the few differences noted in the description below, the terms of each non-competition and non-solicitation agreement are generally in relevant part similar.

*Full-Time Commitment* . Each Contracting Employee agrees to devote substantially all of his or her business time, skill, energies and attention to his or her responsibilities at Blackstone in a diligent manner. Our founder Mr. Schwarzman has agreed that our business will be his principal business pursuit and that he will devote such time and attention to the business of the firm as may be reasonably requested by us.

*Confidentiality* . Each Contracting Employee is required, whether during or after his or her employment with us, to protect and only use “confidential information” in accordance with strict restrictions placed by us on its use and disclosure. (Every employee of ours is subject to similar strict confidentiality obligations imposed by our Code of Conduct applicable to all Blackstone personnel.)

*Notice of Termination* . Each Contracting Employee is required to give us prior written notice of his or her intention to leave our employ — six months in the case of Mr. Schwarzman, 90 days for all of our other senior managing directors and between 30 and 60 days in the case of all other Contracting Employees.

*Garden Leave* . Upon his or her voluntary departure from our firm, a Contracting Employee is required to take a prescribed period of “garden leave.” The period of garden leave is 90 days for our non-founding senior managing directors and between 30 and 60 days for all other Contracting Employees. During this period the Contracting Employee will continue to receive some of his or her Blackstone compensation and benefits, but is prohibited from commencing employment with a new employer until the garden leave period has expired. The period of garden leave for each Contracting Employee will run coterminously with the non-competition Restricted Period that applies to him or her as described below. Our founder Mr. Schwarzman is subject to non-competition covenants but not garden leave requirements.

*Non-Competition* . During the term of employment of each Contracting Employee, and during the Restricted Period (as such term is defined below) immediately thereafter, he or she will not, directly or indirectly:

- engage in any business activity in which we operate, including any competitive business,
- render any services to any competitive business, or
- acquire a financial interest in or become actively involved with any competitive business (other than as a passive investor holding minimal percentages of the stock of public companies).

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“Competitive business” means any business that competes, during the term of employment through the date of termination, with our business, including any businesses that we are actively considering conducting at the time of the Contracting Employee’s termination of employment, so long as he or she knows or reasonably should have known about such plans, in any geographical or market area where we or our affiliates provide our products or services.

*Non-Solicitation* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit any of our employees to leave their employment with us, or hire any such employee who was employed by us as of the date of his or her termination or who left employment with us within one year prior to or after the date of his or her termination. Additionally, each Contracting Employee may not solicit or encourage to cease to work with us any consultant or senior advisers that he or she knows or should know is under contract with us.

In addition, during the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit the business of any client or prospective client of ours with whom he or she, employees reporting to him or her, or anyone whom he or she had direct or indirect responsibility over had personal contact or dealings on our behalf during the three-year period immediately preceding his or her termination. Contracting Employees who are employed in our asset management businesses are subject to a similar non-solicitation covenant with respect to investors and prospective investors in our investment funds.

*Non-Interference and Non-Disparagement* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she may not interfere with business relationships between us and any of our clients, customers, suppliers or partners. Each Contracting Employee is also prohibited from disparaging us in any way.

*Restricted Period* . For purposes of the foregoing covenants, the “Restricted Period” will be:

<b>Covenant</b>	<b>Stephen A. Schwarzman</b>	<b>Other Senior Managing Directors</b>	<b>Other Contracting Employees</b>
<i>Non-competition</i>	Two years after termination of employment.	One year (six months for senior managing directors who are eligible to retire, as defined below) after termination of employment.	Between 90 days and six months after termination of employment.
<i>Non-solicitation of Blackstone employees</i>	Two years after termination of employment.	Two years after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-solicitation of Blackstone clients or investors</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-interference with business relationships</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.

*Retirement* . Blackstone personnel are eligible to retire if they have satisfied either of the following tests: (a) one has reached the age of 65 and has at least five full years of service with our firm; or (b) generally one has reached the age of 55 and has at least five full years of service with our firm and the sum of his or her age plus years of service with our firm totals at least 65.

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*Intellectual Property* . Each Contracting Employee is subject to customary intellectual property covenants with respect to works created, invented, designed or developed by him or her that are relevant to or implicated by his or her employment with us.

*Specific Performance* . In the case of any breach of the confidentiality, non-competition, non-solicitation, non-interference, non-disparagement or intellectual property provisions by a Contracting Employee, the breaching individual agrees that we will be entitled to seek equitable relief in the form of specific performance, restraining orders, injunctions or other equitable remedies.

### Director Compensation in 2014

No additional remuneration is paid to our employees for service as a director of our general partner. In 2014, each of our non-employee directors received an annual cash retainer of \$150,000 and a grant of deferred restricted common units equivalent in value to \$150,000, with a grant date fair value determined as described in footnote (a) to the first table below. The number of deferred restricted common units to be granted is based on the average of the high and low trading price of our common units on the grant date. An additional \$30,000 annual cash retainer was paid to the Chairman of the Audit Committee during 2014. An additional \$25,000 annual cash retainer was paid to Mr. Light in connection with his service as a director on the executive committee of Blackstone Group International Partners LLP.

The following table provides the director compensation for our directors for 2014:

Name	Fees Earned or Paid in Cash	Stock Awards (a) (b)	Total
Bennett J. Goodman (c)	\$ —	\$ —	\$ —
Jonathan D. Gray (c)	\$ —	\$ —	\$ —
The Right Honorable Brian Mulroney	\$150,000	\$149,220	\$299,220
William G. Parrett	\$180,000	\$152,275	\$332,275
Richard Jenrette	\$150,000	\$150,519	\$300,519
Jay O. Light	\$175,000	\$150,600	\$325,600
Rochelle B. Lazarus	\$150,000	\$150,486	\$300,486

- (a) The references to “stock” in this table refer to our deferred restricted common units. Amounts for 2014 represent the grant date fair value of stock awards granted in the year, computed in accordance with GAAP, pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data”. These deferred restricted common units vest, and the underlying Blackstone common units will be delivered, on the first anniversary of the date of grant, subject to the outside director’s continued service on the board of directors of our general partner.
- (b) Each of our non-employee directors was granted deferred restricted common units upon appointment as a director. In 2014, in connection with the anniversary of his or her initial grant, each of the following directors was granted deferred restricted common units: Mr. Mulroney — 4,469 units; Mr. Parrett — 4,890 units; Mr. Jenrette — 4,589 units; Mr. Light — 4,543 units and Ms. Lazarus — 4,581 units. The amounts of our non-employee directors’ compensation were approved by the board of directors of our general partner upon the recommendation of our founder following his review of directors’ compensation paid by comparable companies.

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The following table provides information regarding outstanding unvested equity awards made to our directors as of December 31, 2014:

Name	Stock Awards (1)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (2)
The Right Honorable Brian Mulroney	4,469	\$151,186
William G. Parrett	4,890	\$165,429
Richard Jenrette	4,589	\$155,246
Jay O. Light	4,543	\$153,690
Rochelle B. Lazarus	4,581	\$154,975

(1) The references to “stock” or “shares” in this table refer to our deferred restricted common units.

(2) The dollar amounts shown in this column were calculated by multiplying the number of unvested deferred restricted common units held by the director by the closing market price of \$33.83 per Blackstone common unit on December 31, 2014, the last trading day of 2014.

(c) Mr. Gray and Mr. Goodman are employees, and no additional remuneration is paid to them for service as a director of our general partner. Mr. Gray and Mr. Goodman’s employee compensation is discussed in “— Item 13. Certain Relationships and Related Transactions, and Director Independence.”

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common units and Blackstone Holdings Partnership Units as of February 24, 2015 by:

- each person known to us to beneficially own 5% of any class of the outstanding voting securities of The Blackstone Group L.P.;
- each member of our general partner’s board of directors;
- each of the named executive officers of our general partner; and
- all directors and executive officers of our general partner as a group.



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The amounts and percentage of units beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of February 24, 2015. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise included, for purposes of this table, the principal business address for each such person is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

Name of Beneficial Owner	Common Units, Beneficially Owned		Blackstone Holdings Partnership Units Beneficially Owned (a)	
	Number	% of Class	Number	% of Class
<b>5% Unitholders:</b>				
Janus Capital Management LLC (b)	29,663,042	6%	—	—
FMR LLC (c)	52,769,632	10%	—	—
<b>Directors and Executive Officers (d)</b>				
Stephen A. Schwarzman (e)(f)	—	—	231,924,793	45%
Hamilton E. James (f)(g)	2,000,000	*	32,180,300	6%
J. Tomilson Hill (f)(g)	1,698,442	*	14,645,085	3%
Bennett J. Goodman (f)(g)	1,074,025	*	2,461,174	*
Jonathan D. Gray (f)	—	—	40,585,300	8%
Laurence A. Tosi	—	—	552,977	*
John G. Finley	—	—	370,000	*
The Right Honorable Brian Mulroney	141,597	*	—	—
William G. Parrett	55,969	*	—	—
Richard Jenrette	35,911	*	—	—
Rochelle B. Lazarus	19,747	*	—	—
Jay O. Light	35,045	*	—	—
All executive officers and directors as a group (13 persons)	5,060,736	*	322,924,513	62%

\* Less than one percent

- (a) Subject to certain requirements and restrictions, the partnership units of Blackstone Holdings are exchangeable for common units of The Blackstone Group L.P. on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. See “— Item 13. Certain Relationships and Related Transactions, and Director Independence — Exchange Agreement”. Beneficial ownership of Blackstone Holdings Partnership Units reflected in this table has not been also reflected as beneficial ownership of the common units of The Blackstone Group L.P. for which such units may be exchanged.
- (b) Reflects units beneficially owned by Janus Capital Management LLC based on the Schedule 13G filed by Janus Capital on February 18, 2015. The address of Janus Capital Management is 151 Detroit Street, Denver, Colorado 80206.
- (c) Reflects units beneficially owned by FMR, LLC and its subsidiaries based on the Schedule 13G filed by FMR, LLC on January 12, 2015. The address of FMR, LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (d) The units beneficially owned by the directors and executive officers reflected above do not include the following number of units that will be delivered to the respective individual more than 60 days after February 24, 2015: Mr. James — 20,176 deferred restricted common units; Mr. Hill — 968,591 deferred restricted common units; Mr. Goodman — 5,028,435 deferred restricted Blackstone Holdings Partnership Units; Mr. Tosi — 471,319 deferred restricted Blackstone Holdings Partnership Units — 49,925 deferred

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restricted common units; Mr. Finley — 163,103 deferred restricted Blackstone Holdings Partnership Units — 29,892 deferred restricted common units; Mr. Mulroney — 4,469 deferred restricted common units; Mr. Parrett — 4,890 deferred restricted common units; Mr. Jenrette — 4,589 deferred restricted common units; Ms. Lazarus — 4,581 deferred restricted common units; Mr. Light — 4,543 deferred restricted common units; and all other executive officers and directors as a group — 290,049 deferred restricted Blackstone Holdings Partnership Units and 29,892 deferred restricted common units.

- (e) On those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, holds a special voting unit in The Blackstone Group L.P. that provides it with an aggregate number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Blackstone Holdings Partnership Units held by the limited partners of Blackstone Holdings on the relevant record date and entitles it to participate in the vote on the same basis as our common unitholders. Our senior managing directors have agreed in the limited liability company agreement of Blackstone Partners L.L.C. that our founder, Mr. Schwarzman, will have the power to determine how the special voting unit held by Blackstone Partners L.L.C. will be voted. Following the withdrawal, death or disability of Mr. Schwarzman (and any successor founder), this power will revert to the members of Blackstone Partners L.L.C. holding a majority in interest in that entity. The limited liability company agreement of Blackstone Partners L.L.C. provides that at such time as Mr. Schwarzman should cease to be a founding member, Mr. James will thereupon succeed Mr. Schwarzman as the sole founding member of Blackstone Partners L.L.C. If Blackstone Partners L.L.C. directs us to do so, we will issue special voting units to each of the limited partners of Blackstone Holdings, whereupon each special voting unitholder will be entitled to a number of votes that is equal to the number of vested and unvested Blackstone Holdings Partnership Units held by such special voting unitholder on the relevant record date.
- (f) The Blackstone Holdings Partnership Units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Schwarzman — 1,666,666 units held in various trusts for which Mr. Schwarzman is the investment trustee, Mr. James — 10,657,207 units held in a trust for which Mr. James and his brother are trustees (but Mr. James does not have or share investment control with respect to the units), Mr. Hill — 250,000 units held by Mr. Hill's spouse and 5,636,348 units held in various trusts for which Mr. Hill's spouse is the investment trustee, Mr. Tosi — 225,000 units held in a trust for which Mr. Tosi is the investment trustee, and Mr. Gray — 4,869,262 units held in a trust for which Mr. Gray is the investment trustee, (b) the following units held in grantor retained annuity trusts for which the named executive officer or director, as applicable, is the investment trustee: Mr. Schwarzman — 2,713,432 units, and Mr. Gray — 4,889,140 units, and (c) the following units held by a corporation for which the named executive officer is a controlling shareholder: Mr. Schwarzman — 1,438,529 units and Mr. Goodman — 199,542. Mr. Schwarzman also directly, or through a corporation for which he is the controlling shareholder, beneficially owns an additional 364,278 partnership units in each of Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. In addition, with respect to Mr. Schwarzman, the above table excludes partnership units of Blackstone Holdings held by his children or in trusts for the benefit of his family as to which he has no voting or investment control.
- (g) The Blackstone common units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership, Mr. James — 2,000,000 units held in a family limited liability company, Mr. Hill — 1,698,442 units held in two family limited liability companies, Mr. Goodman — 792,821 units held in family limited liability companies (b) the following units held by a personal foundation over which the named director disclaims beneficial ownership, Mr. Goodman — 24,017 units.

In addition, as of February 24, 2015, Beijing Wonderful Investments, an investment vehicle established and controlled by the People's Republic of China, holds 69,083,468 of our non-voting common units and may from time to time make open market purchases or sales of our voting common units.

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### Securities Authorized for Issuance under Equity Compensation Plans

The table set forth below provides information concerning the awards that may be issued under the 2007 Equity Incentive Plan as of December 31, 2014:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (b)
Equity Compensation Plans Approved by Security Holders	51,535,062	—	157,447,870
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	<u>51,535,062</u>	<u>—</u>	<u>157,447,870</u>

- (a) Reflects the outstanding number of our deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units granted under the 2007 Equity Incentive Plan as of December 31, 2014.
- (b) The aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of our common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of our common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). As of January 1, 2015, pursuant to this formula, 165,943,809 units, which is equal to 0.15 times the number of our common units and Blackstone Holdings Partnership Units outstanding on December 31, 2014, were available for issuance under the 2007 Equity Incentive Plan. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by the 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Transactions with Related Persons

#### *Tax Receivable Agreements*

We used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the pre-IPO owners. In addition, holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. Blackstone Holdings I L.P. and Blackstone Holdings II L.P. have made an election under Section 754 of the Internal Revenue Code effective for each taxable year in which an exchange of partnership units for common units occurs, which may result in an adjustment to the tax basis of the assets of such Blackstone Holdings partnerships at the time of an exchange.

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of partnership units. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of Blackstone's wholly owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future. One of the subsidiaries of The Blackstone Group L.P. which is a corporate taxpayer has entered into a tax receivable agreement with holders of Blackstone Holdings Partnership Units that provides for the payment by the corporate taxpayer to such holders of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of these increases in tax basis and of certain other tax benefits related to our entering into tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreement. Additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayer would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreement. A limited partner of Blackstone Holdings may also elect to exchange his or her Blackstone Holdings Partnership Units in a tax-free transaction where the limited partner is making a charitable contribution. In such a case, the exchange will not result in an increase in the tax basis of the assets of Blackstone Holdings and no payments will be made under the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of our IPO and will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayers exercise their right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase and exchanges will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$413.7 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

On September 30, 2014, payments totaling \$6.2 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2008 and 2010 taxable years. Those payments included payments of \$1.5 million to Stephen A. Schwarzman and investment vehicles controlled by relatives of Mr. Schwarzman.

Subsequent to December 31, 2014, payments totaling \$82.8 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2013 taxable year. Those payments included payments of \$11.1 million to Stephen A. Schwarzman and investment vehicles controlled by relatives of Mr. Schwarzman; \$2.7 million to Hamilton E. James and a trust for which Mr. James is the investment trustee; \$1.3 million to J. Tomilson Hill and a trust for which Mr. Hill is the investment trustee and \$0.3 million to Bennett J. Goodman and a limited liability company controlled by a family member of Mr. Goodman.

In addition, the tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, the corporate taxpayers' (or their successors') obligations

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with respect to exchanged or acquired units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the benefits arising from the increased tax deductions and tax basis and other similar benefits. Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis and other similar benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by an exchanging or selling holder of Blackstone Holdings Partnership Units, under the tax receivable agreement. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under a tax receivable agreement and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase the tax liability of a holder of Blackstone Holdings Partnership Units without giving rise to any rights of a holder of Blackstone Holdings Partnership Units to receive payments under any tax receivable agreements.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the corporate taxpayers will not be reimbursed for any payments previously made under a tax receivable agreement. As a result, in certain circumstances, payments could be made under a tax receivable agreement in excess of the corporate taxpayers' cash tax savings.

### ***Registration Rights Agreement***

In connection with the restructuring and IPO, we entered into a registration rights agreement with our pre-IPO owners pursuant to which we granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act common units delivered in exchange for Blackstone Holdings Partnership Units or common units (and other securities convertible into or exchangeable or exercisable for our common units) otherwise held by them. In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the registration rights agreement. Under the registration rights agreement, we agreed to register the exchange of Blackstone Holdings Partnership Units for common units by our holders of Blackstone Holdings Partnership Units. In June 2008, we filed a registration statement on Form S-3 with the Securities and Exchange Commission to cover future issuances from time to time of up to 818,008,105 common units to holders of Blackstone Holdings Partnership Units upon exchange of up to an equal number of such Blackstone Holdings Partnership Units. In addition, our founder, Stephen A. Schwarzman, has the right to request that we register the sale of common units held by holders of Blackstone Holdings Partnership Units an unlimited number of times and may require us to make available shelf registration statements permitting sales of common units into the market from time to time over an extended period. In addition, Mr. Schwarzman has the ability to exercise certain piggyback registration rights in respect of common units held by holders of Blackstone Holdings Partnership Units in connection with registered offerings requested by other registration rights holders or initiated by us.

### ***Swift River Transactions***

Swift River Investments, Inc. ("Swift River") is a private family investment firm that manages capital on behalf of our President, Chief Operating Officer and Director, Hamilton E. James, his brother, David R. James, and members of their families. While Hamilton E. James has a majority economic interest in Swift River, the day-to-day business of Swift River is managed by David R. James.

### **iLevel**

Blackstone and Swift River are the largest shareholders in iLevel Solutions LLC ("iLevel"), a business that provides private equity software and advanced portfolio monitoring software solutions to private equity firms and other institutions, including Blackstone. In May 2014, Swift River invested approximately \$0.9 million (in addition

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to amounts previously invested and approved by the Conflicts Committee of the Board of Directors) in iLevel. Blackstone also participated in the financing on a pro rata basis, investing approximately \$0.8 million. Blackstone and Swift River remain the largest shareholders with approximately 21% and 24% equity interests, respectively.

### **Allied**

Allied Wireline Services, LLC (“Allied”) is an oilfield services company that specializes in providing wireline services to oil and gas companies. In February 2014, FS Energy & Power (“FSEP”), a business development company registered under the Investment Company Act of 1940 to whom GSO Capital Partners LP serves as a non-discretionary sub-advisor, participated in a financing transaction pursuant to which FSEP provided a \$110 million term loan to Allied and contributed \$6.6 million of equity to finance the acquisition by Allied of Horizontal Wireline Services, LLC. Additional equity financing was provided by Allied Energy Investors, a Turnbridge Capital investment vehicle in which Swift River is a limited partner. Prior to the financing transaction described above, Swift River held a 54% interest in Allied through Allied Energy Investors. In connection with the financing transaction, Swift River invested an additional \$5.4 million of equity in Allied through Allied Energy Investors. Subsequent to these transactions, and a subsequent equity repurchase by Allied due to a departing managing member, FSEP and Swift River Investments own 12.7% and 30.0% of Allied, respectively. Mr. Hamilton E. James did not participate in the negotiation or execution of the transaction in any manner for any party.

### ***Tsinghua University Education Foundation***

As part of an initiative announced in 2013, Mr. Schwarzman, through the Stephen A. Schwarzman Education Foundation, personally committed \$100 million to create and endow a post-graduate scholarship program at Tsinghua University in Beijing, entitled “Schwarzman Scholars,” and fund the construction of a residential and academic building. He is leading a fundraising campaign to raise \$400 million to support the “Schwarzman Endowment Fund.” The Tsinghua University Education Foundation (“TUEF”) will hold the Schwarzman Endowment Fund and has agreed to delegate management of the fund to Blackstone. We have agreed that TUEF will not be required to pay Blackstone a management fee for managing the Schwarzman Endowment Fund and, to the extent Blackstone allocates and invests assets of the Schwarzman Endowment Fund in our funds, which may take the form of funded or unfunded general partner commitments to our investment funds, we anticipate that such investments will be subject to reduced or waived management fees and/or carried interest.

### ***Executive Advisor Agreement with Andrew Lapham***

On April 17, 2014, we entered into an Executive Advisor Agreement with Andrew Lapham. In his role as an Executive Advisor, Mr. Lapham focuses primarily on sourcing and evaluating the firm’s investment opportunities in Canada. Mr. Lapham is the son-in-law of Mr. Mulrone, who has been a member of the board of directors of our general partner since 2007. Pursuant to the terms of the Executive Advisor Agreement, in respect of his services in 2014, Mr. Lapham is entitled to a \$350,000 annual retainer and a one-time bonus of \$150,000 (which bonus will be paid in 2015). With respect to each investment sourced by him, Mr. Lapham is entitled to receive a transaction fee and, subject to a required capital contribution by Mr. Lapham, a profit sharing percentage of the net profits realized from such investment by the relevant fund. In 2014, we paid Mr. Lapham \$233,333, which represents the prorated amount of his annual retainer.

### ***Bennett J. Goodman***

On February 24, 2015, Bennett J. Goodman was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Goodman joined Blackstone in 2008 and is a Senior Managing Director and Co-Founder of GSO Capital Partners. For 2014, Mr. Goodman received a base salary of \$350,000 and an annual cash bonus payment of \$7,048,925. The cash payment was based upon the performance of the Credit segment, including the contribution of all current and past funds within the segment. The ultimate cash payment to Mr. Goodman was, however, determined in the discretion of Mr. Schwarzman and Mr. James.

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Mr. Goodman also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Goodman in respect of carried interest in our carry funds primarily relates to Mr. Goodman's participation in the credit funds. The amount of cash payments in respect of carried interest or incentive fee allocations to Mr. Goodman for 2014 was \$13,181,183. See "Executive Compensation — Compensation Elements for Named Executive Officers" in this report for additional discussion of the elements of our compensation program.

In February 2015, we agreed with the former owners of GSO, including Mr. Goodman, to settle in full our obligation to make further "earn out" payments to them arising from our redemption of profits interests that were issued to them in connection with our acquisition of GSO by making a payment in the form of a combination of vested and unvested restricted Blackstone Holdings Units. In connection therewith, Mr. Goodman is to receive 798,166 Blackstone Holdings Partnership Units (which will include 199,542 units to be held in a family limited liability company), 122,385 of which are to be immediately vested, 506,837 of which are to vest on December 31, 2016 and 168,944 of which are to vest on December 31, 2017.

### *Jonathan D. Gray*

On February 24, 2012, Jonathan D. Gray was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Gray joined Blackstone in 1992 and is a Senior Managing Director and Global Head of Real Estate. For 2014, Mr. Gray received a base salary of \$350,000 and an annual cash bonus payment of \$28,160,848. The cash payment was based upon the performance of the Real Estate segment, including the contribution of all current and past funds within the segment dating back to before the IPO. The ultimate cash payment to Mr. Gray was, however, determined in the discretion of Mr. Schwarzman and Mr. James.

Mr. Gray also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Gray in respect of carried interest in our carry funds primarily relates to Mr. Gray's participation in the real estate funds (which were formed both before and after the IPO). The amount of payments in respect of carried interest (whether in cash or in-kind) or incentive fee allocations to Mr. Gray for 2014 was \$76,695,118. Any in-kind distributions in respect of carried interest are reported based on the market value of the securities distributed as of the date of distribution. See "Executive Compensation — Compensation Elements for Named Executive Officers" in this report for additional discussion of the elements of our compensation program.

### **Blackstone Holdings Partnership Agreements**

As a result of the reorganization and the IPO, The Blackstone Group L.P. became a holding partnership and, through wholly owned subsidiaries, held equity interests in the five holdings partnerships (i.e., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.). On January 1, 2009, in order to simplify our structure and ease the related administrative burden and costs, we effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to the five holding partnerships prior to the January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization. Wholly owned subsidiaries of The Blackstone Group L.P. are the sole general partner of each of the Blackstone Holdings Partnerships. Accordingly, The Blackstone Group L.P. operates and controls all of the business and affairs of Blackstone Holdings and, through Blackstone Holdings and its operating entity subsidiaries, conducts our business. Through its wholly owned subsidiaries, The Blackstone Group L.P. has unilateral control over all of the affairs and decision making of Blackstone Holdings. Furthermore, the wholly owned subsidiaries of The

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Blackstone Group L.P. cannot be removed as the general partners of the Blackstone Holdings Partnerships without their approval. Because our general partner, Blackstone Group Management L.L.C., operates and controls the business of The Blackstone Group L.P., the board of directors and officers of our general partner are accordingly responsible for all operational and administrative decisions of Blackstone Holdings and the day-to-day management of Blackstone Holdings' business. Pursuant to the partnership agreements of the Blackstone Holdings Partnerships, the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships have the right to determine when distributions will be made to the partners of Blackstone Holdings and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of Blackstone Holdings pro rata in accordance with the percentages of their respective partnership interests as described under "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy."

Each of the Blackstone Holdings Partnerships has an identical number of partnership units outstanding, and we use the terms "Blackstone Holdings Partnership Unit" or "partnership unit in/of Blackstone Holdings" to refer, collectively, to a partnership unit in each of the Blackstone Holdings Partnerships. The holders of partnership units in Blackstone Holdings, including The Blackstone Group L.P.'s wholly owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Blackstone Holdings. Net profits and net losses of Blackstone Holdings will generally be allocated to its partners (including The Blackstone Group L.P.'s wholly owned subsidiaries) pro rata in accordance with the percentages of their respective partnership interests as described under "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Cash Distribution Policy". The partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions are computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). Tax distributions are made only to the extent all distributions from such partnerships for the relevant year are insufficient to cover such tax liabilities.

Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, Blackstone Holdings Partnership Units may be exchanged for The Blackstone Group L.P. common units as described under "— Exchange Agreement" below. In addition, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

See "— Item 11. Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years — Vesting Provisions" for a discussion of vesting provisions applicable to Blackstone personnel in respect of the Blackstone Holdings Partnership Units received by them in the reorganization and "— Item 11. Executive Compensation — Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2014 — Terms of Blackstone Holdings Partnership Units Granted in 2014 and Prior Years — Minimum Retained Ownership Requirements and Transfer Restrictions" for a discussion of minimum retained ownership requirements and transfer restrictions applicable to the Blackstone Holdings Partnership Units. The generally applicable vesting and minimum retained ownership requirements and transfer restrictions are outlined in the sections referenced in the preceding sentence. There may be some different arrangements for some individuals in some instances. In addition, we may waive these requirements and restrictions from time to time.



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In addition, substantially all of our expenses, including substantially all expenses solely incurred by or attributable to The Blackstone Group L.P. but not including obligations incurred under the tax receivable agreement by The Blackstone Group L.P.'s wholly owned subsidiaries, income tax expenses of The Blackstone Group L.P.'s wholly owned subsidiaries and payments on indebtedness incurred by The Blackstone Group L.P.'s wholly owned subsidiaries, are borne by Blackstone Holdings.

### Exchange Agreement

In connection with the reorganization and IPO, we entered into an exchange agreement with the holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries). In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the exchange agreement. Under the exchange agreement, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, each such holder of Blackstone Holdings Partnership Units (and certain transferees thereof) may up to four times each year (subject to the terms of the exchange agreement) exchange these partnership units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Under the exchange agreement, to effect an exchange a holder of partnership units in Blackstone Holdings must simultaneously exchange one partnership unit in each of the Blackstone Holdings Partnerships. As a holder exchanges its Blackstone Holdings Partnership Units, The Blackstone Group L.P.'s indirect interest in the Blackstone Holdings Partnerships will be correspondingly increased.

### Firm Use of Private Aircraft

Certain entities controlled by Mr. Schwarzman wholly own aircraft that we use for business purposes in the course of our operations. Mr. Schwarzman paid for his respective ownership interests in the aircraft himself and bore his respective share of all operating, personnel and maintenance costs associated with their operation. The hourly payments we made for such use were based on current market rates. In 2014, we made payments of \$2.9 million for the use of such aircraft, which included \$0.8 million paid directly to the managers of the aircraft.

An entity jointly controlled by Mr. James and Mr. Gray wholly owns an airplane that we use for business purposes in the course of our operations. Each of Mr. James and Mr. Gray paid for his respective ownership interest in the aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we made for such use were based on current market rates. In 2014 we made payments of \$0.8 million for our use of this aircraft, which included \$0.4 million paid directly to the manager of the aircraft.

### Investment in or Alongside Our Funds

Our directors and executive officers may invest their own capital in or alongside our carry funds without being subject to management fees or carried interest. These investments may be made through the applicable fund general partner and fund a portion of the general partner capital commitments to our funds. In addition, our directors and executive officers may invest their own capital in our funds of hedge funds and credit-focused funds that are structured as hedge funds, in some instances, not subject to management fees or carried interest. These investment opportunities are available to all of our senior managing directors and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. During the year ended December 31, 2014, our directors and executive officers (and, in some cases, certain investment trusts or other family vehicles or charitable organizations controlled by them or their immediate family members) had the following net contributions or net distributions relating to their personal investments (and the investments of any such trusts) in Blackstone-managed investment funds: Mr. Schwarzman, Mr. James, Mr. Hill, Mr. Gray and Ms. Solotar received net distribution of \$33.5 million, \$34.7 million, \$12.8 million, \$21.4 million and \$0.7 million, respectively, and Mr. Tosi, Mr. Finley, Mr. Goodman and Mr. Light made net contributions of \$6.8 million, \$0.1 million, \$6.8 million and \$0.8 million, respectively.

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### Statement of Policy Regarding Transactions with Related Persons

The board of directors of our general partner has adopted a written statement of policy regarding transactions with related persons, which we refer to as our “related person policy.” Our related person policy requires that a “related person” (as defined as in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to the Chief Legal Officer of our general partner any “related person transaction” (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. The Chief Legal Officer will then promptly communicate that information to the board of directors of our general partner. No related person transaction will be consummated without the approval or ratification of the board of directors of our general partner or any committee of the board of directors consisting exclusively of disinterested directors. It is our policy that directors interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

### Indemnification of Directors and Officers

Under our partnership agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our general partner; any departing general partner; any person who is or was an affiliate of a general partner or any departing general partner; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, the general partner or any departing general partner or any affiliate of ours or our subsidiaries, the general partner or any departing general partner; any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our general partner. We have agreed to provide this indemnification to the extent such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the partnership, and with respect to any alleged conduct resulting in a criminal proceeding against such person, to deny indemnification if such person had reasonable cause to believe that his or her conduct was unlawful. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

We will also indemnify any of our employees who personally becomes subject to a “clawback” obligation to one of our investment funds in respect of carried interest that we have received. See “Part I. Item 1. Business— Incentive Arrangements / Fee Structure”.

### Non-Competition and Non-Solicitation Agreements

We have entered into a non-competition and non-solicitation agreement with each of our professionals and other senior employees, including each of our executive officers. See “— Item 11. Executive Compensation — Non-Competition and Non-Solicitation Agreements” for a description of the material terms of such agreements.

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### Director Independence

Because we are a publicly traded limited partnership, the NYSE rules do not require our general partner's board to be made up of a majority of independent directors. All of the non-management directors of our general partner's board of directors satisfy the independence requirements of the NYSE. These directors are Messrs. Jenrette, Light, Mulrone and Parrett and Ms. Lazarus. Based on all relevant facts and circumstances, our general partner's board of directors affirmatively determined that the independent directors have no material relationship with us or our general partner. The board of directors of our general partner follows the following standards in determining director independence:

Under any circumstances, a director is not independent if:

- the director is, or has been within the preceding three years, employed by our general partner or us,
- an immediate family member of the director was employed as an executive officer of our general partner or us within the preceding three years,
- the director, or an immediate family member of that director, received within the preceding three years more than \$120,000 in any twelve-month period in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service),
- the director is a current partner or employee of a firm that is our internal or external auditor; the director has an immediate family member who is a current partner of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on our audit; or the director or an immediate family member of that director was within the last three years a partner or employee of such a firm and personally worked on our or a predecessor's audit within that time,
- the director or an immediate family member is, or has been within the preceding three years, employed as an executive officer of another company where any of our general partner's present executive officers at the same time serves or served on such other company's compensation committee, or
- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the preceding three fiscal years, exceeds the greater of \$1,000,000 or two percent (2%) of the consolidated gross revenues of the other company.

The following commercial or charitable relationships will not be considered to be material relationships that would impair a director's independence:

- if the director or an immediate family member of that director serves as an executive officer, director or trustee of a charitable organization, and our annual charitable contributions to that organization (excluding contributions by us under any established matching gift program) are less than the greater of \$1,000,000 or two percent (2%) of that organization's consolidated gross revenues in its most recent fiscal year, and
- if the director or an immediate family member of that director (or a company for which the director serves as a director or executive officer) invests in or alongside of one or more investment funds or investment companies managed by us or any of our subsidiaries, whether or not fees or other incentive arrangements for us or our subsidiaries are borne by the investing person.

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### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, the “Deloitte Entities”):

	Year Ended December 31, 2014		
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d) (Dollars in Thousands)	Blackstone Funds, Transaction Related (e)
Audit Fees	\$ 8,636(a)	\$ 33,273	\$ —
Audit-Related Fees	\$ 235(b)	\$ 180	\$ 19,246
Tax Fees	\$ 414(c)	\$ 45,569	\$ 2,920
Other	\$ —	\$ 56	\$ —

	Year Ended December 31, 2013		
	The Blackstone Group L.P.	Blackstone Entities, Principally Fund Related (d) (Dollars in Thousands)	Blackstone Funds, Transaction Related (e)
Audit Fees	\$ 9,130(a)	\$ 25,504	\$ —
Audit-Related Fees	\$ —	\$ 170	\$ 9,778
Tax Fees	\$ 450(c)	\$ 47,164	\$ 2,984

- (a) Audit Fees consisted of fees for (1) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation, (2) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and (3) consents and other services related to SEC and other regulatory filings.
- (b) Audit-Related Fees include risk advisory services.
- (c) Tax Fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.
- (d) The Deloitte Entities also provide audit, audit-related and tax services (primarily tax compliance and related services) to certain Blackstone funds and other corporate entities. Also included in these amounts are audit and tax fees related to the spin-off of Blackstone’s financial advisory practice.
- (e) Audit-Related Fees included merger and acquisition due diligence services provided in connection with potential acquisitions of portfolio companies for investment purposes primarily to certain private equity and real estate funds managed by Blackstone in its capacity as the general partner. In addition, the Deloitte Entities provide audit, audit-related, tax and other services to the portfolio companies, which are approved directly by the portfolio company’s management and are not included in the amounts presented here.

Our audit committee charter, which is available on our website at [www.blackstone.com](http://www.blackstone.com) under “Investor Relations”, requires the audit committee to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm in accordance with the audit and non-audit related services pre-approval policy. All services reported in the Audit, Audit-Related and Tax categories above were approved by the audit committee.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this annual report.

1. *Financial Statements:*

See Item 8 above.

2. *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-141504) filed with the SEC on March 22, 2007).
3.2	Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K filed with the SEC on June 27, 2007).
3.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 3.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
3.2.2	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 4, 2011 (incorporated herein by reference to Exhibit 3.2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
4.1	Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.2	First Supplemental Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.3	Form of 6.625% Senior Note due 2019 (included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.6	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.7	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.6 hereto).
4.8	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.9	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.8 hereto).
4.10	Fifth Supplemental Indenture dated as of April 7, 2014 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 7, 2014).
4.11	Form of 5.000% Senior Note due 2044 (included in Exhibit 4.10 hereto).
10.1	Amended and Restated Limited Partnership Agreement of Blackstone Holdings I L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings I L.P. party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.1.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings I L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.1.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.2	Amended and Restated Limited Partnership Agreement of Blackstone Holdings II L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings II L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.3	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III L.P., dated as of January 1, 2009, by and among Blackstone Holdings III GP L.L.C. and the limited partners of Blackstone Holdings III L.P. party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.3.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings III L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.4	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV L.P., dated as of January 1, 2009, by and among Blackstone Holdings IV GP L.P. and the limited partners of Blackstone Holdings IV L.P. party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.4.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings IV L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.5	Tax Receivable Agreement, dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc., Blackstone Holdings I L.P., Blackstone Holdings II L.P. and the limited partners of Blackstone Holdings I L.P. and Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.6	Second Amended and Restated Exchange Agreement, dated as of February 28, 2013, among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.7	Registration Rights Agreement, dated as of June 18, 2007 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.8.1+	The Blackstone Group L.P. Amended and Restated 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on July 9, 2014).
10.9+*	The Blackstone Group L.P. Sixth Amended and Restated Bonus Deferral Plan effective as of December 1, 2014.
10.10+	Founding Member Agreement of Stephen A. Schwarzman, dated as of June 18, 2007, by and among Blackstone Holdings I L.P. and Stephen A. Schwarzman (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.11+	Agreement, dated as of June 9, 2008, between Blackstone Holdings I L.P. and Laurence A. Tosi (incorporated herein by reference to Exhibit 10.28 to the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2008).
10.12+	Form of Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 14, 2007). (Applicable to all executive officers other than Messrs. Schwarzman and Peterson).
10.13+	Form of Deferred Restricted Common Unit Award Agreement (Directors) (incorporated herein by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.14+	Form of Deferred Restricted Blackstone Holdings Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.15	Amended and Restated Credit Agreement dated as of March 23, 2010, as amended and restated as of May 29, 2014, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as guarantors, Citibank, N.A., as administrative agent and the lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on June 4, 2014).
10.16	Letter Agreement between The Blackstone Group L.P. and the Beijing Wonderful Investments Ltd, dated May 22, 2007 (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 4, 2007).
10.17	Letter Agreement, dated October 16, 2008, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd, amending the Letter Agreement, dated May 22, 2007, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd (incorporated herein by reference to Exhibit 10.16.1 to the Registrants' Current Report on Form 8-K filed with the SEC on October 16, 2008).
10.18+	Second Amended and Restated Limited Liability Company Agreement of BMA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BMA V L.L.C. (incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.20+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.20.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.20.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.21+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Management Associates IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Management Associates IV L.L.C. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.22+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates L.L.C. (incorporated herein by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.23+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates II L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates II L.L.C. (incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.24+	Second Amended and Restated Limited Liability Company Agreement of BREA IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA IV L.L.C. (incorporated herein by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.25+	Second Amended and Restated Limited Liability Company Agreement of BREA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA V L.L.C. (incorporated herein by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26+	Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.26.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.27	Second Amended and Restated Limited Liability Company Agreement of Blackstone Communications Management Associates I L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Communications Management Associates I L.L.C. (incorporated herein by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.28+	Amended and Restated Limited Liability Company Agreement of BCLA L.L.C., dated as of April 15, 2008, by and among Blackstone Holdings III L.P. and certain members of BCLA L.L.C. (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.29+	Third Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates Europe III L.P., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.30+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Real Estate Special Situations Associates L.L.C., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.31+	BMA VI L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2008 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.32+	Fourth Amended and Restated Limited Liability Company Agreement of GSO Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.33+	Amended and Restated Limited Liability Company Agreement of GSO Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.34+	Third Amended and Restated Limited Liability Company Agreement of GSO Origination Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.35+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.36+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.37+	Second Amended and Restated Limited Liability Company Agreement of GSO Liquidity Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.38+	Amended and Restated Limited Liability Company Agreement of GSO Liquidity Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.39+	Blackstone / GSO Capital Solutions Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of May 22, 2009 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.40+	Blackstone / GSO Capital Solutions Overseas Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of July 10, 2009 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.41+	Blackstone Real Estate Special Situations Associates II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.42+	Blackstone Real Estate Special Situations Management Associates Europe L.P. Amended and Restated Agreement of Limited Partnership, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.43+	BRECA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of May 1, 2009 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Quarterly Report on 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.44	Amended and Restated Master Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Management Partners IV, L.L.C., dated as of February 27, 2012 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.45	GSO Targeted Opportunity Associates LLC Amended and Restated Limited Liability Company Agreement Dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.46	GSO Targeted Opportunity Overseas Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.47	BCVA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 8, 2010 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.48	Amended and Restated Agreement of Exempted Limited Partnership of MB Asia REA L.P., dated November 23, 2010 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33551) filed with the SEC on February 25, 2011).
10.49	Amended and Restated Limited Liability Company Agreement of GSO SJ Partners Associates LLC, dated December 7, 2010, by and among GSO Holdings I L.L.C. and certain members of GSO SJ Partners Associates LLC thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.50	Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates II LLC, dated as of March 31, 2011, by and among GSO Holdings I L.L.C. and certain members of GSO Capital Opportunities Associates II LLC thereto (incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.51	Blackstone EMA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.52	GSO NMERB Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 25, 2011 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53	Blackstone Real Estate Associates VII L.P. Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53.1	Blackstone Real Estate Associates VII L.P. Second Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.53.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.54	GSO Energy Partners-A Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of February 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.55	BTOA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of February 15, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.56+	Form of Deferred Holdings Unit Agreement for Senior Managing Directors (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.57+	Amended and Restated Limited Liability Company Agreement of Blackstone Commercial Real Estate Debt Associates L.L.C., dated as of November 12, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.58+	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.59+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.60+	GSO Foreland Resources Co-Invest Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 10, 2012 (incorporated herein by reference to Exhibit 10.60 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.61+	GSO Palmetto Opportunistic Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2012 (incorporated herein by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.62+	Agreement, dated as of July 6, 2010, between Blackstone Holdings I L.P. and John G. Finley (incorporated herein by reference to Exhibit 10.62 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.63+	Second Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Asia L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.63 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.64+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Europe IV L.P., dated February 26, 2014 (incorporated herein by reference to Exhibit 10.64 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33551) filed with the SEC on February 28, 2014).
10.65+*	Aircraft Dry Lease Agreement between XB Partners LLC and Blackstone Administrative Services Partnership L.P. dated as of February 27, 2015.
10.66+*	Form of GSO Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.67+*	Form of GSO Senior Managing Director Non-Compensation and Non-Solicitation Agreement by and among Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and each of the Senior Managing Directors from time to time party thereto.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1*	Section 13(r) Disclosure.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

+ Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

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

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2015

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

\_\_\_\_\_  
/s/ Laurence A. Tosi  
Name: Laurence A. Tosi  
Title: Chief Financial Officer  
(Principal Financial Officer and Authorized Signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 27th day of February, 2015.

<u>Signature</u>	<u>Title</u>
_____ /s/ Stephen A. Schwarzman Stephen A. Schwarzman	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
_____ /s/ Bennett J. Goodman Bennett J. Goodman	Director
_____ /s/ Jonathan D. Gray Jonathan D. Gray	Director
_____ /s/ J. Tomilson Hill J. Tomilson Hill	Director
_____ /s/ Hamilton E. James Hamilton E. James	Director
_____ /s/ Richard Jenrette Richard Jenrette	Director
_____ /s/ Rochelle B. Lazarus Rochelle B. Lazarus	Director
_____ /s/ Jay O. Light Jay O. Light	Director
_____ /s/ Brian Mulroney Brian Mulroney	Director
_____ /s/ William G. Parrett William G. Parrett	Director
_____ /s/ Laurence A. Tosi Laurence A. Tosi	Chief Financial Officer (Principal Financial Officer)
_____ /s/ Kathleen Skero Kathleen Skero	Principal Accounting Officer (Principal Accounting Officer)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551



**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer  (do not check if a smaller reporting company)Smaller reporting company 

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2013 was approximately \$11,558.3 million, which includes non-voting common units with a value of approximately \$2,086.7 million.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 21, 2014 was 500,887,343. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 21, 2014 was 77,144,845.

DOCUMENTS INCORPORATED BY REFERENCE

None





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### Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (“SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

### Website and Social Media Disclosure

We use our website ([www.blackstone.com](http://www.blackstone.com)), our corporate Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)) and our corporate Twitter account (@Blackstone) as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the “E-mail Alerts” section of our website at <http://ir.blackstone.com/alerts.cfm?>. The contents of our website and social media channels are not, however, a part of this report.

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In this report, references to “Blackstone,” the “Partnership,” “we,” “us” or “our” refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

“Blackstone Funds,” “our funds” and “our investment funds” refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) and collateralized debt obligation (“CDO”) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. “Our carry funds” refer to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone’s Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (“BCP”) funds, certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (“Tactical Opportunities”), and Strategic Partners Fund Solutions (“Strategic Partners”), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (“BREDS”) funds. We refer to our listed real estate investment trusts as “REITs”. “Our hedge funds” refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-focused funds, which are managed by Blackstone.

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“Assets under management” refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days’ notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days’ notice.

“Fee-earning assets under management” refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures

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presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

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### PART I.

#### ITEM 1. BUSINESS

##### Overview

Blackstone is a leading global alternative asset manager and provider of financial advisory services, with Total Assets Under Management of \$265.8 billion as of December 31, 2013. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds and multi-asset class exposures falling outside of other funds' mandates. We also provide a wide range of financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services.

All of Blackstone's businesses use a solutions oriented approach to drive better performance. Since we were founded in 1985, we have cultivated strong relationships with clients in our financial advisory business, where we endeavor to provide objective and insightful solutions and advice that our clients can trust. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are corporate and public pension funds. As a result, to the extent our funds perform well, it supports a better retirement for hundreds of thousands of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have transformative impacts on local economies.

As of December 31, 2013, we had 129 senior managing directors and employed approximately 840 other investment and advisory professionals at our headquarters in New York and in 23 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This track record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

##### 2013 Highlights

###### *Accelerating Realization Activity*

- More constructive market backdrop has allowed for increasing exit activity for more seasoned investments, with total realizations rising to nearly \$30 billion, up from \$13 billion in 2012.
- Active participation in improving equity capital markets, including the successful initial public offerings of SeaWorld Parks & Entertainment, Merlin Entertainments, Pinnacle Foods, Hilton, Extended Stay and Brixmor.

###### *Record Global Investment Pace*

- Our funds, including co-investments, invested or committed \$19.6 billion of capital.
- Global scale and diversity across asset classes allow Blackstone to identify relative value and move capital to the most attractive opportunities. For the first time, nearly half of capital deployed during the year was outside of North America. Real Estate continued its strong pace with \$11.6 billion deployed or committed, followed by Private Equity at \$5.0 billion.

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### *Continued Double-Digit Total Assets Under Management Growth*

- Double-digit Total Assets Under Management growth across all investing businesses—Private Equity, Real Estate, Hedge Fund Solutions and Credit—due to significant inflows and market appreciation.
- Gross organic capital inflows of over \$50 billion across our businesses, or over \$60 billion including acquisitions.
- Hedge Fund Solutions external gross inflows of \$9.1 billion, including inflows from BAAM’s permanent capital vehicle acquiring general partner interests in hedge funds (initial close of \$1.1 billion) as well as BAAM’s first alternative investment-focused 1940 Act mutual fund for the retail market.
- Tactical Opportunities closed on an additional \$3.4 billion in the year, bringing total commitments to \$5.1 billion.
- Initial close of \$688 million for our latest Strategic Partners secondary fund of funds.
- In Real Estate, our first Asian real estate fund grew to \$3.2 billion, while our fourth European fund reached \$5.6 billion in total commitments, both approaching their caps of \$5.0 billion and \$6.9 billion, respectively. In addition, BREDS II raised \$3.3 billion.
- Credit continued to diversify the platform and launch new products, driving \$18.8 billion in gross inflows during the year.

### *Strategic Acquisitions*

- In August 2013, we completed our acquisition of Strategic Partners Fund Solutions, a secondary private fund of funds business, adding \$9.4 billion to Total Assets Under Management.

### *Industry-Leading Credit Rating*

- On December 11, 2013, S&P upgraded Blackstone’s rating to A+, matching Fitch’s rating, making Blackstone the highest rated alternative asset manager and one of the highest rated global financial services firms.
- Strong balance sheet with no net debt, \$2.1 billion in total cash, corporate treasury and liquid investments, and \$1.1 billion undrawn revolver.

### *Positively Impacting Communities*

- In support of the White House’s Joining Forces initiative, we launched the Blackstone Veterans Hiring Initiative, committing to hire 50,000 veterans across our portfolio of companies over a five year period and hosting our inaugural Veterans Hiring Summit. The Blackstone Charitable Foundation supported this initiative with an announced Request for Proposal for grants targeting organizations that focus on veterans’ employment and business development; 8,000 veterans have been hired since the initiative was announced in April 2013.
- The Blackstone Charitable Foundation continued to innovate projects and partnered with organizations aimed at accelerating entrepreneurship, job growth and economic activity as part of its \$50 million Entrepreneurship Initiative.

### **Business Segments**

Our five business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions, (d) Credit, and (e) Financial Advisory.

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Information about our business segments should be read together with “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements and related notes included elsewhere in this Form 10-K.

### *Private Equity*

Our Private Equity segment, established in 1987, is a global business with approximately 200 investment professionals managing \$65.7 billion of Total Assets Under Management as of December 31, 2013. We are focused on identifying, managing and creating lasting value for our investors. Our Private Equity segment includes our corporate private equity funds, our Tactical Opportunities business, which pursues a global multi-asset class approach to investing in illiquid assets focused on timely opportunities that fall outside our other alternative fund strategies, as well as Strategic Partners, our secondary private fund of funds business acquired on August 5, 2013. We have raised six general private equity funds as well as two specialized funds focusing on energy and communications-related investments. We are currently investing from our sixth general private equity fund, Blackstone Capital Partners VI (“BCP VI”) and our energy fund, Blackstone Energy Partners (“BEP”), which have fund sizes of \$15.2 billion and \$2.4 billion, respectively. In addition, we are investing capital for Tactical Opportunities which, as of December 31, 2013, had raised \$5.1 billion of capital, and raising capital for our latest Strategic Partners vehicle. From an operation focused in our early years on consummating leveraged buyout acquisitions of U.S. based companies, we have grown into a business pursuing transactions throughout the world and executing not only typical leveraged buyout acquisitions of seasoned companies but also transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions. Our Private Equity segment’s multi-dimensional investment approach is guided by several core investment principles: corporate partnerships, sector expertise, a contrarian bias (for example, investing in out-of-favor / under-appreciated industries), global scope, distressed securities investing, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. Our existing corporate private equity funds invest primarily in control-oriented, privately negotiated investments and generally utilize leverage in consummating the investments they make. For more information concerning the revenues and fees we derive from our Private Equity segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

### *Real Estate*

We have become a world leader in real estate investing since launching our first real estate fund in 1994 and, with our approximately 190 investment professionals, manage \$79.4 billion of Total Assets Under Management as of December 31, 2013. We have managed or continue to manage seven global opportunistic real estate funds, four European focused opportunistic real estate funds, an Asian focused opportunistic real estate fund, a number of real estate debt investment funds, CDOs, a publicly traded REIT (“BXMT”) and an acquired Asian real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our BREP funds and our real estate debt investment funds as our BREDS funds. Our Real Estate segment’s investing approach is guided by several core investment principles, many of which are similar to our Private Equity segment, including global scope, a significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. For more information concerning the revenues and fees we derive from our Real Estate segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

### *Hedge Fund Solutions*

Our Hedge Fund Solutions group, which is comprised primarily of Blackstone Alternative Asset Management (“BAAM”), was organized in 1990 and manages a broad range of commingled funds of hedge

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funds and customized vehicles. BAAM's businesses also include hedge fund seed, long-only, special situations and advisory platforms. BAAM also has launched a public funds platform. Working with our clients over the past 23 years, BAAM has developed into a leading manager of institutional funds of hedge funds with approximately 130 investment professionals managing \$55.7 billion of Total Assets Under Management as of December 31, 2013. BAAM's overall investment philosophy is to protect and grow investors' assets through both commingled and custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see "—Incentive Arrangements / Fee Structure" in this Item 1.

### ***Credit***

Our credit business, comprised principally of GSO Capital Partners LP ("GSO"), with \$65.0 billion of Total Assets Under Management as of December 31, 2013 and approximately 130 investment professionals, is a leading participant in the leveraged finance markets. The funds we manage or sub-advise include senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. GSO also manages separately managed accounts and registered investment companies including business development companies. These vehicles have investment portfolios comprised of loans and securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with the investments that the credit-focused funds, separately managed accounts or registered investment companies make. GSO manages 55 separate CLOs as of December 31, 2013, focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

### ***Financial Advisory***

Our Financial Advisory segment comprises our financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds. Our financial advisory businesses are global businesses with approximately 260 professionals around the world.

*Financial and Strategic Advisory Services ("Blackstone Advisory Partners")*. Blackstone Advisory Partners has been an independent provider of creative solutions to institutional clients around the globe on complex strategic initiatives for over 25 years. We focus on a wide range of transaction execution capabilities, such as with respect to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory, private placements and distressed sales. Recent clients include Advance Auto Parts, Aviva plc, Brightpoint, Deutsche Annington, DONG Energy, Georgia-Pacific, J.C. Penney, Los Angeles Dodgers, Noble Group, NYSE Euronext, W.R. Grace and Xerox. The success of Blackstone Advisory Partners has resulted from a highly experienced team focused on our core principles, including protecting client confidentiality, prioritizing our client's interests, avoidance of conflicts and senior-level attention. The 22 senior managing directors in Blackstone Advisory Partners have an average of over 20 years of experience each in providing corporate finance and mergers and acquisitions advice. Through Blackstone Advisory Partners, we also provide capital markets services, primarily underwriting securities offerings. Recent transactions in which we have participated include the initial public offerings for Brixmor, Extended Stay and Pinnacle Foods, the initial public offering and secondary offering for SeaWorld Parks & Entertainment, and the initial public offering and debt refinancing for Hilton.

*Restructuring and Reorganization Advisory Services ("Restructuring and Reorganization")*. Our Restructuring and Reorganization group is one of the leading advisers in both out-of-court restructurings and in-court bankruptcies. Our Restructuring and Reorganization team advises companies, creditors, corporate parents, hedge funds, financial sponsors and acquirers of troubled companies. This group is particularly active in large, complex and high-profile deals. Recent clients include Ambac Financial Group, BGP Investment, Clearwire,



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Dana Gas, Enterprise, J.C. Penney, Kodak creditors, MBIA Corp., Patriot Coal, Travelport and W.R. Grace. Senior-level attention, out-of-court focus, global emphasis and the ability to facilitate prompt, creative resolutions are critical ingredients in our restructuring and reorganization advisory approach. We have one of the most seasoned and experienced restructuring teams in the financial services industry, working on a significant share of the major restructuring assignments in this area. Our five senior managing directors have an average of 22 years of experience each in restructuring assignments and employ the skills we feel are crucial to successful restructuring outcomes.

*Fund Placement Services/Park Hill Group* . Park Hill Group provides fund placement services for private equity funds, real estate funds, venture capital funds and hedge funds. Park Hill Group primarily provides placement services to unrelated third party sponsored funds. It also assists in raising capital for our own investment funds and provides insights into new alternative asset products and trends. Park Hill Group and our investment funds mutually benefit from the other's relationships with both limited partners and other fund sponsors.

### Financial and Other Information by Segment

Financial and other information by segment for the years ended December 31, 2013, 2012 and 2011 is set forth in Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

### Pátria Investments

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, "Pátria"). Pátria is a leading Brazilian alternative asset manager and advisory firm that was founded in 1988. As of December 31, 2013, Pátria's alternative asset management businesses managed \$6.4 billion in assets and include the management of private equity funds (\$2.5 billion), real estate funds (\$1.2 billion), infrastructure funds (\$2.3 billion) and hedge funds (\$456.8 million). Pátria has approximately 200 employees and is led by a group of four managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria's board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

Pátria is currently investing its fourth private equity fund, which has \$1.3 billion of commitments. Pátria's private equity business primarily targets high-growth industries in Brazil and has successfully built leading companies through its operational focus and platform building approach. Pátria is currently investing its third real estate fund. Its real estate funds have focused primarily on Brazilian real estate development, particularly build-to-suit, sale leaseback and buy-lease transactions. Pátria is also currently pursuing more opportunistic real estate investments within Brazil. Pátria's infrastructure business is in its third vintage. Its first fund concentrated on renewable energy generation, including early stage projects in Brazil. The second and third infrastructure funds are a joint venture with Promon Engenharia, a leading engineering consultancy firm within Brazil, with a broad mandate for infrastructure and infrastructure-related investments in Brazil and selected other Latin American countries. The firm's capital management group manages a variety of liquid funds with strategies focused on currency, sovereign debt, credit, interest rates and equities in Brazil. Pátria's investors are diversified and include Brazilian and international institutional and high-net worth investors.

Pátria's advisory business focuses on mergers and acquisitions, joint ventures, and strategic partnerships, corporate finance and restructuring for Brazilian and multinational companies. In March 2012, Pátria acquired a 50% stake in Capitale, one of the leading independent power trading companies in Brazil.

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### **Investment Process and Risk Management**

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest, as well as limitations required by law.

#### ***Private Equity Funds***

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly review committee meeting comprised of senior managing directors of our Private Equity segment. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. After discussing the contemplated transaction with the deal team, the review committee decides whether to give its preliminary approval to the deal team to continue pursuing the investment opportunity and investigate further any particular issues raised by the review committee during the process.

Once a proposed transaction has reached a more advanced stage, it undergoes a detailed interim review by the review committee of our private equity funds. Following assimilation of the review committee's input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James and selected senior managing directors of our Private Equity segment as appropriate based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies' operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds' portfolio companies.

Our Strategic Partners secondary private equity investment professionals seek capital appreciation through the purchase of secondary interests in mature, high-quality private equity funds from investors seeking liquidity. After rigorous, highly analytical investment and operational due diligence, the Strategic Partners' investment professionals will present a proposed transaction to the group's Investment Committee. The Strategic Partners Investment Committee is made up of senior members of the Strategic Partners team, including all of the group's Senior Managing Directors. The Investment Committee meets on an ad hoc basis as needed to review transactions. After reviewing the investment team's Investment Committee Memorandum and discussing the contemplated transaction with the deal team, the Investment Committee decides whether to approve or deny the investment. The investment professionals on the Strategic Partners team are responsible for monitoring each investment once it is made. In addition to members of the investment team, and given the large number of underlying investments, the Strategic Partners Finance team will also track investment valuations pursuant to the group's valuation policies and procedures.

#### ***Real Estate Funds***

Our Real Estate investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing, monitoring and exiting investments, as well as pursuing operational improvements and value creation. Our real estate operation has an investment committee similar to that described

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under “—Private Equity Funds.” After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly meeting of the investment committee. The real estate investment committee, which includes Mr. Schwarzman, Mr. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP fund investment. The committee also approves significant illiquid investments by the BREDS funds. Additionally, BXMT has an investment risk management committee comprised solely of independent directors, which is responsible for approving certain significant BXMT investments. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies’ operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds’ portfolio companies and other investments.

### *Hedge Fund Solutions*

Before deciding to invest in a new hedge fund or with a new hedge fund manager, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site “front office” review of the fund’s/manager’s performance, investment terms, investment strategy and investment personnel, a “back office” review of the fund’s/manager’s operations, processes, risk management and internal controls, industry reference checks and a legal review of the investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the relevant Hedge Fund Solutions’ Investment Committee. The Investment Committees are comprised of relevant senior managing directors and senior investment personnel. The Hedge Fund Solutions’ Executive Committee reviews and approves all investment allocations where there is limited capacity or there are other unusual circumstances. Existing investments are reviewed and monitored on a regular and continuous basis, and J. Tomilson Hill, CEO of Hedge Fund Solutions and Vice Chairman of Blackstone, and other senior members of our Hedge Fund Solutions team meet bi-weekly with Mr. Schwarzman and Mr. James to review the group’s business and affairs.

### *Credit*

Each of our credit-focused funds has an investment committee similar to that described under “—Private Equity Funds.” The investment committees for the credit-focused funds, which typically include Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover and senior members of the respective investment teams associated with each fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Mr. Goodman, Mr. Smith III and Mr. Ostrover, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for the customized credit long-only clients are made by a separate investment committee, which is comprised of the group’s senior managing directors and managing directors. With limited exceptions where the portfolio managers are looking to capitalize on market opportunities, the investment committee approves all assets prior to the initial investment by any investment vehicle in such asset. The investment team is staffed by professionals within research, portfolio management, trading and capital formation to ensure active management of the portfolios and to afford focus on all aspects of our CLOs and registered investment companies. Investment decisions follow a consensus-based approach and require unanimous approval of the investment committee. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation. Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team constantly monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### Structure and Operation of Our Investment Vehicles

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high-net worth individuals. Such commitments are generally drawn down from investors on an as needed basis to fund investments over a specified term. All of our private equity and private real estate funds are commitment structured funds, except for two of our real estate debt funds which are structured like hedge funds where all of the committed capital is funded on or promptly after the investor's subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our Real Estate business also includes a NYSE listed real estate investment trust and a registered closed-end investment company complex, each of which is externally managed by a BREDS-owned adviser. Our credit-focused funds are generally commitment structured funds or hedge funds where the investor's capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Eight credit-focused vehicles that we manage or sub-advise in whole or in part are registered investment companies (including business development companies). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds are structured as funds where the investor's capital is fully funded into the fund upon the subscription for interests in the fund. Our private investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of 1940, or "Advisers Act." Substantially all of the responsibility for the day-to-day operations of each investment vehicle is typically delegated to the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment vehicles and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or "1940 Act," in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are "qualified purchasers" as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the United States Securities and Exchange Commission ("SEC"), Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers. With respect to BXMT, it conducts its operations (i.e., purchasing or otherwise acquiring mortgages and other interests in real estate) so that it is not an "investment company" as defined in Section 3(a)(1)(A) or Section 3(a)(1)(C) of the 1940 Act.

In some cases, one or more of our investment advisers, including GSO, BAAM and BREDS advisers, advises or sub-advises funds registered under the 1940 Act.

In addition to having an investment adviser, each investment fund that is a limited partnership, or "partnership" fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund's business. Furthermore, all decisions concerning the making, monitoring and

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disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund's general partner in its sole discretion. With the exception of certain of our funds of hedge funds and certain credit-focused funds, third party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund (for example, both of Mr. Schwarzman and Mr. James in the case of certain of our private equity funds), then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it.

### **Incentive Arrangements / Fee Structure**

#### ***Management Fees***

The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund's capital commitments and/or invested capital during the investment period and the fund's invested capital or investment fair value after the investment period, except that the investment advisers to certain of our credit-focused carry funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. The investment adviser of each of our funds that are structured like hedge funds, or of our funds of hedge funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of the fund's or account's net asset value. The investment adviser of each of our CLOs and CDOs typically receives annual management fees based upon a percentage of each fund's total assets, subject to certain performance measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). The investment adviser of our separately managed accounts typically receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The investment adviser of each of our credit-focused registered and non-registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. The investment adviser of BXMT receives annual management fees based upon a percentage of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments. For additional information regarding the management fee rates we receive, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Revenue Recognition—Management and Advisory Fees".

The management fees we receive from our carry funds are payable on a regular basis (typically quarterly) in the contractually prescribed amounts noted above over the life of the fund and do not depend on the investment performance of the fund. The management fees we receive from our hedge funds have similar characteristics, except that such funds often afford investors increased liquidity through annual, semi-annual or quarterly withdrawal or redemption rights following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years) and the amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor's capital account grows and will proportionately decrease as the net asset value of each investor's capital account decreases. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. In each case the management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice. The management fees we

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receive from the registered investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice. The management fees we receive from managing BXMT are paid quarterly and proportionately increase or decrease based on, among other things, BXMT's net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments).

### *Incentive Fees*

The general partners or similar entities of each of our hedge fund structures receive performance-based allocation fees ("incentive fees") of generally 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry-forward provisions (known as a "high water mark"). In some cases, the investment adviser of each of our funds of hedge funds, separately managed accounts that invest in hedge funds and certain registered investment companies is entitled to an incentive fee generally ranging from zero to 15% of the applicable investment vehicle's net appreciation per annum, subject to a high water mark and in some cases a preferred return. In addition, for the business development companies we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum, subject to a preferred return. The investment adviser of BXMT is entitled to an incentive fee, payable quarterly, in an amount, not less than zero, equal to the product of (a) 20% and (b) the excess of (i) its core earnings for the previous 12-month period over (ii) an amount equal to 7.00% per annum multiplied by the net proceeds received from equity offerings and accumulated core earnings (subject to certain adjustments). Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

### *Carried Interest*

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a "realized gain" basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused funds, real estate debt funds, multi-asset class investment funds and secondary funds of funds are entitled to a carried interest that ranges from 10% to 15% depending on the specific fund. Net realized income or loss is not netted between or among funds.

For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 7% to 10%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund (or earlier with respect to our real estate and certain multi-asset class investment funds), as a result of diminished performance of later investments in a carry fund's life, (a) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) of the fund's net profits over the life of the fund, or (in certain cases) (b) the carry fund has not achieved investment returns that exceed the preferred return threshold, then we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which we are ultimately entitled. This obligation is known as a "clawback" obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

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Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund's own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2013, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see “—Item 1A. Risk Factors—We may not have sufficient cash to pay back ‘clawback’ obligations if and when they are triggered under the governing agreements with our investors.”

### *Advisory Fees*

Many of our investment advisers, especially private equity and real estate advisers, receive customary fees (for example, acquisition fees or origination fees) upon consummation of many of the funds' transactions, receive monitoring fees from many of the funds' portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees that they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such transaction fees and certain other fees that they receive.

### **Capital Invested In and Alongside Our Investment Funds**

To further align our interests with those of investors in our investment funds, we have invested the firm's capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See “Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity Needs” for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional “co-investments” with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as “side-by-side investments,” with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those

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acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

### Competition

The asset management and financial advisory industries are intensely competitive, and we expect them to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

*Asset Management* . We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. With respect to outside investors, many have increased the amount of commitments they are making to alternative investment funds. However, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Competitors may also be subject to different regulatory regimes or rules that may provide them more flexibility or better access to pursue transactions or raise capital for their investment funds. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment.

*Financial Advisory* . Our competitors are other advisory, investment banking and financial firms. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. Our competitors also have the ability to support investment banking, including financial and strategic advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions and other strategic advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.



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In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see “—Item 1A. Risk Factors—Risks Related to Our Asset Management Business—The asset management business is intensely competitive” and “—Risks Related to Our Financial Advisory Business—We face strong competition from other financial advisory firms”.

### Employees

As of December 31, 2013, we employed approximately 2,010 people, including our 129 senior managing directors and approximately 840 other investment and advisory professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

### Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients, and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial and strategic advisory business, is registered as a broker-dealer with the SEC, is a member of the Financial Industry Regulatory Authority, or “FINRA,” and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. Park Hill Group LLC is registered as a broker-dealer with the SEC, is a member of FINRA and is registered as a broker-dealer in numerous states. Park Hill Real Estate Group LLC, which has been registered as a broker-dealer with the SEC, a member of FINRA, and a broker-dealer in numerous states, was merged into Park Hill Group LLC during 2013, and continues to conduct its business as a division of Park Hill Group LLC. Our broker-dealer entities are subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entities. State securities regulators also have regulatory or oversight authority over our broker-dealer entities.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including the implementation of a supervisory control system over the securities business, sales practices, conduct of and compensation in connection with public and private securities offerings, use and safekeeping of customers’ funds and securities, maintenance of adequate net capital, record keeping, the financing of customers’ purchases and the conduct and qualifications of directors, officers and employees. In particular, as registered broker-dealers and members of FINRA, Blackstone Advisory Partners L.P. and Park Hill Group LLC are subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the capital structure of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances.

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Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

The Blackstone Group International Partners LLP and GSO Capital Partners International LLP ("GSO International") are both authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. The U.K. Financial Services and Markets Act 2000, or "FSMA," and rules promulgated thereunder govern all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. Pursuant to the FSMA, certain of our subsidiaries are subject to regulations promulgated and administered by the FCA.

In addition, each of the closed-end mutual funds and investment management companies we manage is registered under the 1940 Act as a closed-end investment company. The closed-end mutual funds and investment management companies and the entities that serve as those vehicles' investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland and is authorized to act as a manager of Irish non-UCITS Collective Investment Schemes. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore.

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms.

Certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments (including, without limitation, India, Japan and Hong Kong), their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our enterprise risk management function further analyzes our business, investment, and other key risks, reinforcing their importance in our environment. We have a compliance group that monitors our compliance with all of the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our Chief Compliance Officer, in coordination with the Chief Legal Officer, supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

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Our compliance group also monitors the information barriers that we maintain between the public and private side of Blackstone's different businesses. We believe that our various businesses' access to the intellectual knowledge and contacts and relationships that reside throughout our firm benefits all of our businesses. In order to maximize that access without compromising our compliance with the legal and contractual obligations to which we are subject, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

The firm also has an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley Act compliance, and enterprise risk management functions. Internal Audit aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well-managed and that controls are appropriate and effective.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see "Regulatory changes in the United States could adversely affect our business" and "Recent regulatory changes in jurisdictions outside the United States could adversely affect our business" in "—Item 1A. Risk Factors—Risks Related to Our Business."

### Available Information

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

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### ITEM 1A. RISK FACTORS

#### Risks Related to Our Business

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition.*

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financial institutions, which had a significant material adverse effect on our investment businesses, particularly our private equity and real estate businesses. During that period, many economies around the world, including the U.S. economy, experienced significant declines in employment, household wealth, and lending. The lack of credit in 2008 and 2009 materially hindered the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impacted our operating results in those periods. While the adverse effects of that period have abated to a significant degree, global financial markets have experienced volatility at various times since, including in response to the May 2013 suggestion that the Federal Reserve could slow the pace of asset purchases in the coming months. As publicly traded equity securities represent a higher proportion of the assets of many of our carry funds than has typically been the case, stock market volatility may have a greater impact on our reported results than in the past. Although credit spreads are inside of historical averages and all-in financing costs are below those prevailing prior to the recession, there is concern that the favorability of market conditions may be dependent on continued monetary policy accommodation from central banks, especially the U.S. Federal Reserve. Additional reductions in the pace of U.S. Federal Reserve asset purchases (i.e., “tapering”) could have unpredictable consequences for credit markets, which may create adverse consequences for deal finance conditions and negatively impact our business. Economic activity and employment in developed economies remain below levels implied by pre-recession trends and financial institutions have not provided debt financing in amounts and on the terms commensurate with what they provided prior to 2008, particularly in Europe. In addition, many emerging economies have recently experienced weakness, tighter credit conditions and a decreased availability of foreign capital. Continued weakness could result in lower returns than we anticipated at the time certain of our investments were made.

Interest rates have been at historically low levels for the last few years. These rates may remain relatively low or rise in the future and a period of sharply rising interest rates could have an adverse impact on our business.

Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets and by the possibility that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds’ portfolio companies may experience adverse operating performance, decreased revenues, financial losses, difficulty in obtaining

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access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds' performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently to our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. We are unable to predict whether and to what extent economic and market conditions will improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

In addition, our financial advisory business can be materially affected by conditions in the global economy and various financial markets. For example, revenues generated by our financial advisory business are directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our financial advisory services and increasing price competition among financial services companies seeking such engagements.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or re-financing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

Any recurrence of the significant contraction in the market for debt financing that occurred in 2008 and 2009 or other adverse change, including any regulatory changes that would limit banks' ability to provide debt financing, to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements, and/or more restrictive covenants, particularly in the area of acquisition financings for private equity and real estate transactions, would have a material adverse impact on our business. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets and/or regulatory changes render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the markets and/or regulatory changes make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

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***A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.***

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction and monitoring fees we share with our investors. To the extent we accommodate such requests, and in certain cases we have and we expect to continue to do so, it would result in a decrease in the amount of fee revenue we earn.

***Our revenue, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds and fees received by our advisory business can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of our common units and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

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The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their “harvesting” period, our carry funds would make larger distributions than in the fundraising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

With respect to most of our funds of hedge funds and credit-focused and real estate debt funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have “high water marks” whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

We also earn a portion of our revenue from financial advisory engagements, and in many cases we are not paid until the successful consummation of the underlying transaction, restructuring or closing of the fund. As a result, our financial advisory revenue is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. If a transaction, restructuring or funding is not consummated, we often do not receive any financial advisory fees other than the reimbursement of certain out-of-pocket expenses, despite the fact that we may have devoted considerable resources to these transactions.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our initial public offering (“IPO”), our \$600 million debt offering in August 2009, our \$400 million debt offering in September 2010 and our \$650 million debt offering in August 2012, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.1 billion revolving credit facility with a final maturity date of July 13, 2017. Our long-term debt totaled \$1.6 billion in borrowings from the 2009, 2010 and 2012 bond issuances and we had no borrowings outstanding against our \$1.1 billion revolving credit facility as of December 31, 2013. At the end of 2013, we had \$832.0 million in cash, \$1.2 billion invested in our Treasury Cash Management Strategies, \$114.3 million invested in liquid Blackstone funds, \$2.5 billion invested in illiquid Blackstone funds and \$201.5 million invested in other investments.

If the global economy and conditions in the financing markets worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and

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adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

***We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds' carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence—Blackstone Holdings Partnership Agreements") and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings Partnership Units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings Partnership Units.



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Additionally, the retention of an increasingly larger portion of the Blackstone Holdings Partnership Units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See “—Risks Related to United States Taxation—Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to grow our investment and financial advisory businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) combining or integrating operational and management systems and controls, and (d) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which

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we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. For example, our recent and planned business initiatives include offering registered investment products and the creation of investment products open to retail investors. These activities will impose additional compliance burdens on us and could also subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk. In addition, if a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, advisory businesses or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership for U.S. federal income tax purposes or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.***

Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or “ISPI”, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

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The Obama administration proposed policies similar to Congress that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposal would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2013 and prior years.

On February 26, 2014, Representative Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the “2014 Camp Proposal”). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to you would be reduced.

### ***Additional proposed changes in the U.S. taxation of businesses could adversely affect us.***

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a “worldwide” system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Senator Baucus recently proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### ***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (“IFRS”) instead of under accounting principles generally accepted in the United

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States of America (“U.S. GAAP”). IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board (“IASB”) and are more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. Today, there remain significant and material differences in several key areas between U.S. GAAP and IFRS which would affect Blackstone. Additionally, U.S. GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems are from time to time subject to cyberattacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where most of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds’ operations and could affect our reputation and hence adversely affect our businesses.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business. Legislative or regulatory changes could adversely affect us.***

Our business is subject to extensive regulation, including periodic examinations, by governmental and self regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of a broker-dealer or investment adviser from registration or

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memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new asset management or financial advisory clients.

In addition, we regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or “Securities Act,” the Exchange Act, the 1940 Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. For example, the SEC recently amended Rule 506 of Regulation D under the Securities Act to impose “bad actor” disqualification provisions which ban an issuer from offering or selling securities pursuant to the safe harbor rule in Rule 506 if the issuer, or any other “covered person”, is the subject of a criminal, regulatory or court order or other “disqualifying event” under the rule which has not been waived. The definition of “covered person” under the rule includes an issuer’s directors, general partners, managing members and executive officers; affiliates who are also issuing securities in the offering; beneficial owners of 20% or more of the issuer’s outstanding equity securities; and promoters and persons compensated for soliciting investors in the offering. Accordingly, our ability to rely on Rule 506 to offer or sell securities would be impaired if we or any “covered person” is the subject of a disqualifying event under the rule and we are unable to obtain a waiver. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

The Iran Threat Reduction and Syrian Human Rights Act of 2012 (“ITRA”) expands the scope of U.S. sanctions against Iran. More specifically, Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Companies that may be considered our affiliates have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2013, August 8, 2013 and November 8, 2013 as well as Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

### ***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the United States. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

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On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

- The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator with the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies determined to be “systemically important” for supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States. On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The final rule and interpretive guidance details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC will apply a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC will consider whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve. On July 8, 2013 and September 19, 2013, respectively, the FSOC made its first designations of these non-bank financial companies for Federal Reserve supervision. As expected, we were not among them. In connection with the work of the FSOC, on October 31, 2011, the SEC and the Commodity Futures Trading Commission issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports, on Form PF, focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing and their funds’ investments in financial institutions.
- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective on July 21, 2012, kicking off a two-year conformance period. On December 10, 2013, the Federal Reserve and other federal agencies issued the long-awaited final rules implementing the Volcker Rule. Concurrent with the release of such rules, the Federal Reserve issued an order granting an industry-wide one-year extension for all banking entities. As a result, banking entities must have wound down, sold or otherwise conformed their activities, investments and relationships to the requirements of the Volcker Rule by July 2015, absent an extension to the conformance period by the Federal Reserve or an exemption for certain “permitted activities”. The Federal Reserve may, upon a request by a banking entity, grant up to three separate one-year extensions to the conformance period. In addition, the Dodd-Frank Act includes a special provision to address the difficulty banking entities may experience in conforming investments in a private equity fund that qualifies as an “illiquid fund,” or a fund that as of May 1, 2010 was principally invested in, or was contractually committed to principally invest in, illiquid assets and makes all investments pursuant to, and consistent with, an investment strategy to

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principally invest in illiquid assets. For such a fund, a banking entity may seek approval for an additional extension of up to five years. While there is substantial uncertainty regarding the availability of extensions and transition period relief, as well as general practical implications under the Volcker Rule, there are likely to be adverse implications on our ability to raise funds from banking organizations as a result of this prohibition.

- The Dodd-Frank Act requires private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act, to maintain extensive records and to file reports if deemed necessary for purposes of systemic assessment by certain governmental bodies. As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC.
- The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser’s employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding “pay to play” practices by investment advisers.

In September 2010, California enacted legislation requiring placement agents who solicit funds from the California state retirement systems, such as the California Public Employees’ Retirement System and the California State Teachers’ Retirement System to register as lobbyists. In addition to increased reporting requirements, the legislation prohibits placement agents from receiving contingent compensation for soliciting investments from California state retirement systems. New York City has enacted similar measures that require asset management firms and their employees that solicit investments from New York City’s five public pension systems to register as lobbyists. Like the California legislation, the New York City measures impose significant compliance obligations on registered lobbyists and their employers, including annual registration fees, periodic disclosure reports and internal recordkeeping, and also prohibit the acceptance of contingent fees. Moreover, other states or municipalities may consider similar legislation as that enacted in California or adopt regulations or procedures with similar effect. These types of measures could materially and adversely impact our fund placement business.

In June 2011, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, announced the final framework for a comprehensive set of capital and liquidity standards, commonly referred to as “Basel III,” for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by

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member states. In July 2013, the U.S. federal banking regulators announced the adoption of final regulations to implement Basel III for U.S. banking organizations, subject to various transition periods. Compliance with the Basel III standards may result in significant costs to banking organizations, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See “—Changes in the debt financing markets may negatively impact the ability of our private equity funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower yielding investments and potentially decrease our net income.” In the United States, regulations have been proposed by the federal banking agencies, but they remain pending.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

### ***Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act (“FATCA”), all entities in a broadly defined class of foreign financial institutions (“FFIs”) are required to comply with a complicated and expansive reporting regime or, beginning in July of 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or, beginning in July of 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

### ***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

In November 2010, the European Parliament voted to approve the EU Directive on Alternative Investment Fund Managers, which establishes a new EU regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. The EU Directive generally applies to managers with a registered office in the EU (or managing an EU-based fund vehicle), but also impacts non EU-based managers, such as our affiliates, that market securities of alternative investment funds in the EU. In general, the EU Directive will have a staged implementation over a period of years beginning in July 2013 for EU-based managers (or EU-based funds) and no later than 2018 for non-EU based managers marketing non-EU-based funds into the EU. As a consequence of the transitional provisions that have been implemented, we have had to comply with certain requirements of the EU Directive in order to market our investment funds into Europe, including compliance with disclosure and transparency guidelines and asset-stripping restrictions (which prohibit



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distributions to shareholders for 24 months following closing of an acquisition). Blackstone's compliance with the EU Directive, which can be no later than 2018, will subject it to a number of additional requirements, including rules relating to the remuneration of certain personnel (principally adopting the provisions of the Capital Requirements Directive), certain capital requirements for alternative investment fund managers, leverage oversight for each investment fund, liquidity management, and retention of depositaries for each investment fund. Compliance with the requirements of the EU Directive will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

In Denmark and Germany, legislative amendments have been adopted which may limit deductibility of interest and other financing expenses in companies in which our funds have invested or may invest in the future. In Denmark, annual net financing expenses in excess of a threshold amount (Danish krone 21.3 million on a consolidated basis, equal to €2.9 million translated at December 31, 2013) will be limited on the basis of earnings before interest and taxes and/or asset tax values. Further, effective for fiscal years starting July 1, 2012 or later, the rules regarding the use of loss carry forward have been amended. Accordingly loss carry forward for each year can only reduce Danish corporate taxable income in excess of Danish krone 7.5 million (equal to €1.0 million translated at December 31, 2013) by 60% on a consolidated basis. Losses in excess of the 60% threshold may be carried forward to subsequent years, albeit with similar restrictions. According to the German interest stripping rules, interest expenses exceeding the interest income of the same fiscal year may be deducted only up to 30% of the (adjusted) taxable earnings before interest, taxes, depreciation and amortization of the relevant German business (Betrieb) (subject to specific certain exemptions), while any additional non-deductible interest may, if at all, only be claimed in subsequent years. These measures will most likely adversely affect portfolio companies in those countries in which our funds have investments and limit the benefits of additional investments in those countries.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone's non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Growth Capital Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

### ***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued \$600 million of ten-year senior notes at a rate of 6.625% per annum, in September 2010, we issued \$400 million of ten-year senior notes at a rate of 5.875% per annum and in August 2012, we issued \$400 million of ten-year senior notes at a rate of 4.75% per annum and \$250 million of thirty-year senior notes at a rate of 6.25% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under "—Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments". In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We have a credit facility which provides for revolving credit borrowings that has a final maturity date of July 13, 2017. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or by issuing equity, which would dilute existing unitholders. We could also

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repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds' use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the risk of third party litigation arising from investor dissatisfaction with the performance of those investment funds, the activities of our portfolio companies and a variety of other litigation claims. For example, we are currently involved in a suit that alleges that we, along with other private equity firms and investment banks, have violated antitrust laws. From time to time we, our funds and our portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see “— Legal Proceedings” below for a discussion of certain proceedings to which we are currently a party.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Our financial advisory activities may also subject us to the risk of liabilities to our clients and third parties, including our clients' stockholders, under securities or other laws in connection with corporate transactions on which we render advice.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and advisory clients and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest or our financial advisory clients. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to

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our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (“FCPA”). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we will also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, failures by personnel at our portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation. We may face increased risk of such misconduct to the extent our investment in non-U.S. markets, particularly emerging markets, increases. Such misconduct might undermine our due diligence efforts with respect to such companies and could negatively affect the valuation of a fund’s investments.

### **Risks Related to Our Asset Management Business**

*Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.*

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund’s life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds’ performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds’ continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue. A significant number of fund sponsors have recently decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance.

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*Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.*

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been exacerbated by the recent economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although economic conditions have improved and many investors have increased the amount of commitments they are making to alternative investment funds, there is no assurance that this will continue.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, smaller funds and co-investment vehicles. There can be no assurance that such alternatives will be as profitable for us as the traditional investment fund structure, or as to the impact such a trend could have on the cost of our operations or profitability if we were to implement these alternative investment structures. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients. As some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so in our funds. For

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example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ("cap rates") analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially

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different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- market conditions during previous periods were significantly more favorable for generating positive performance, particularly in our private equity and real estate businesses, than the market conditions we experienced in the past three years and may continue to experience for the foreseeable future,
- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,
- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,
- in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in alternative investment funds and high liquidity in debt markets,
- our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves (including, for example, particularly favorable borrowing conditions in the debt markets during 2005, 2006 and early 2007), and our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and
- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments.

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Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory pre-payments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs and CDOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost—and the timing and magnitude of such losses may be accelerated or exacerbated—in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

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Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

### *The asset management business is intensely competitive.*

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds). A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,
- some of our funds may not perform as well as competitors' funds or other available investment products,
- several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,
- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,
- some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,
- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former "star" portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,
- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.



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We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer—potentially for a considerable period of time—sales that they had planned to make. We have made and expect to continue to make significant principal

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investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as “consortium transactions” due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in “—Our investment funds make investments in companies that we do not control.”

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

***Our investment funds make investments in companies that we do not control.***

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in “—We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments”) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

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***We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds' portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,
- heightened exposure to corruption risk in non-U.S. markets,
- political hostility to investments by foreign or private equity investors,
- less publicly available information in respect of companies in non-U.S. markets,
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,
- higher rates of inflation,
- higher transaction costs,
- difficulty in enforcing contractual obligations,
- fewer investor protections,
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and
- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

***We may not have sufficient cash to pay back “clawback” obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds and multi-asset class investment funds), as a result of diminished performance of later investments in any carry fund's life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% to 15% in the case of certain of our credit-focused and real estate debt carry funds, certain of our secondary funds of funds and certain multi-asset class investment funds) of the fund's net profits over the life of the fund, we will be obligated to repay an amount

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equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund's own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

### ***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

### ***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years), subject to the applicable fund's specific redemption provisions. In a declining market, the pace of redemptions and consequent reduction in our assets under management could accelerate. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice. In addition, the boards of directors of the investment management companies we

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manage, or the adviser in respect of the registered business development company we sub-advise, could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a "clawback" obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund (for example, both of Stephen A. Schwarzman and Hamilton E. James in the case of our private equity funds), then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an "assignment," without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end mutual funds, each investment fund's investment management agreement must be approved annually by the independent members of such investment fund's board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

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### ***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.***

Because of our various lines of asset management and advisory businesses, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment or issuers that are our advisory clients. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

### ***Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. Also, our decision to pursue a fund investment opportunity could preclude our ability to obtain a related advisory assignment, and vice versa. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

### ***Risk management activities may adversely affect the return on our funds' investments.***

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result,

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while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation. In addition, in a recent 2013 federal Circuit Court case, the Court determined that a private equity fund could be liable for ERISA Title IV pension obligations (including withdrawal liability incurred with respect to union multiemployer plans) of its portfolio companies, if such fund is a "trade or business" and the fund's ownership interest in the portfolio company is significant enough to bring the portfolio company within its "controlled group". While a number of cases have held that managing investments is not a "trade or business" for tax purposes, the Circuit Court in this case concluded the a private equity fund could be a "trade or business" for ERISA purposes based on certain factors, including the fund's level of involvement in the management of its portfolio companies and the nature of its management fee

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arrangements. The Circuit Court case did not conclude whether the fund in question and its portfolio companies were part of the same “controlled group”.

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, over 70% of the investments of our real estate funds (based on current fair values) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***Investments by our funds in the power and energy industries involve various operational, construction and regulatory risks that could adversely affect our results of operations, liquidity and financial condition.***

The development, operation and maintenance of power and energy generation facilities involves many risks, including, as applicable, labor issues, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, the dependence on a specific fuel source or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses. In turn, such developments could impair a portfolio company’s ability to repay its debt or conduct its operations. We may also choose or be required to decommission a power generation facility or other asset. The decommissioning process could be protracted and result in the incurrence of significant financial and/or regulatory obligations or other uncertainties.

Our power and energy sector portfolio companies may also face construction risks typical for power generation and related infrastructure businesses. Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, and could prevent completion of construction activities once undertaken. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher operation and maintenance costs related to such portfolio company.

The power and energy sectors are the subject of substantial and complex laws, rules and regulation by various federal and state regulatory agencies. Failure to comply with applicable laws, rules and regulations could result in the prevention of operation of certain facilities or the prevention of the sale of such a facility to a third party, as well as the loss of certain rate authority, refund liability, penalties and other remedies, all of which could result in additional costs to a portfolio company and adversely affect the investment results.

Our businesses that invest in the energy industry also focus on investments in businesses involved in oil and gas exploration and development, which can be a speculative business involving a high degree of risk, including:

- the use of new technologies, including hydraulic fracturing,
- reliance on estimates of oil and gas reserves in the evaluation of available geological, geophysical, engineering and economic data for each reservoir,
- encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks, and
- the volatility of oil and natural gas prices.



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### ***The financial projections of our portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

### ***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

### ***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

### ***Hedge fund investments are subject to numerous additional risks.***

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.
- Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide)

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or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.
- Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.
- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets.

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### Risks Related to Our Financial Advisory Business

#### *Financial advisory fees are not long-term contracted sources of revenue and are not predictable.*

The fees earned by our financial advisory business are typically payable upon the successful completion of a particular transaction or restructuring. A decline in our financial advisory engagements or the market for advisory services would adversely affect our business.

Our financial advisory business operates in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue generating engagement typically is separately solicited, awarded and negotiated. In addition, many businesses do not routinely engage in transactions requiring our services. As a consequence, our fee-paying engagements with many clients are not predictable and high levels of financial advisory revenue in one quarter are not necessarily predictive of continued high levels of financial advisory revenue in future periods. In addition to the fact that most of our financial advisory engagements are single, non-recurring engagements, we lose clients each year as a result of a client's decision to retain other financial advisors, the sale, merger or restructuring of a client, a change in a client's senior management and various other causes. Moreover, in any given year our financial advisory engagements may be limited to a relatively smaller number of clients and an even smaller number of those clients may account for a disproportionate percentage of our financial advisory revenues in any such year. As a result, the adverse impact on our results of operations of one lost engagement or the failure of one transaction or restructuring on which we are advising to be completed could be significant. Revenue volumes in our financial advisory business tend to be affected by economic and capital market conditions, with greater merger activity—and therefore higher revenues in our financial and strategic advisory services business—generally occurring when the economy is growing, and more bankruptcies and restructurings—and therefore higher revenues in our Restructuring and Reorganization Advisory Services business—generally occurring in weak economic periods. Accordingly, our financial advisory revenue can fluctuate up or down considerably depending on economic conditions.

The fees earned by Park Hill Group, our fund placement business, are generally recognized by us for accounting purposes upon the successful subscription by an investor in a client's fund and/or the closing of that fund. However, those fees are typically actually paid by a Park Hill Group client over a period of time (for example, two to three years) following such successful subscription by an investor in a client's fund and/or the closing of that fund with interest. There is a risk that during that period of time, Park Hill Group may not be able to collect on all or a portion of the fees Park Hill is due for the placement services it has already provided to such client. For instance, a Park Hill client's fund may be liquidated prior to the time that all or a portion of the fees due to Park Hill for its placement services are due to be paid. Moreover, to the extent fewer assets are raised for funds or interest by investors in alternative asset funds declines, the fees earned by Park Hill Group would be adversely affected.

#### *We face strong competition from other financial advisory firms.*

The financial advisory industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our employees, transaction execution, our products and services, innovation and reputation and price. We have always experienced intense competition over obtaining advisory mandates, and we may experience pricing pressures in our financial advisory business in the future as some of our competitors seek to obtain increased market share by reducing fees. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on

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mergers and acquisitions advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

### *Underwriting activities expose us to risks.*

We act as an underwriter in securities offerings through Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial advisory business. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

### **Risks Related to Our Organizational Structure**

#### *Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.*

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding limited liability matters. As of December 31, 2013, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 52.9% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.

#### *Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.*

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also

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does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under "—Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business", our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,
- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds and certain of our subsidiaries engaged in our advisory business have contractual duties to their clients, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,
- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,

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- other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,
- our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,
- our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us,
- our general partner controls the enforcement of obligations owed to us by it and its affiliates, and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See “Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence” and “Part III. Item 10. Directors, Executive Officers and Corporate Governance—Partnership Management and Governance—Conflicts Committee.”

***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a

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manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See “Part III. Item 10. Directors, Executive Officers and Corporate Governance—Partnership Management and Governance—Conflicts Committee.”

### ***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone’s track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

### ***We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.***

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.’s share of Distributable

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Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to our unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

***The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.***

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2013, we have \$560.7 million of finite-lived intangible assets (in addition to \$1.8 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from three to twenty years, using the straight-line method, with a



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weighted-average remaining amortization period of 7.4 years as of December 31, 2013. In addition, as part of the reorganization at the time of our IPO, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units (which was \$31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the "corporate taxpayers," would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings Partnership Units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings Partnership Units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings Partnership Units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

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Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an "investment company" under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an "investment company" for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and financial advisory firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an "orthodox" investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings Partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings Partnerships and are vested with all management and control over the Blackstone Holdings Partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

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### Risks Related to Our Common Units

#### *Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 500,887,343 voting common units outstanding as of February 21, 2014. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 541,286,627 Blackstone Holdings Partnership Units outstanding as of February 21, 2014. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings Partnership Units. See "Part III. Item 13. Certain Relationships and Related Transactions, and Director Independence—Transactions with Related Persons—Registration Rights Agreement". While the partnership agreements of the Blackstone Holdings Partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it 101,334,234 non-voting common units for \$3.00 billion at a purchase price per common unit of \$29.605. Beijing Wonderful Investments is able to sell these common units subject, with respect to a portion of the units, to certain transfer restrictions. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 21, 2014, we had granted 27,899,431 outstanding deferred restricted common units and 24,926,862 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan ("2007 Equity Incentive Plan"). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 162,916,667 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 21, 2014. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our

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2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

***The market price of our common units may be volatile, which could cause the value of your investment to decline.***

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

### **Risks Related to United States Taxation**

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or “IRS,” and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the “Qualifying Income Exception”), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under “—The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units”, the U.S. Congress recently considered various legislative proposals to treat all or part of the capital gain and

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dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders' beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The value of our common units depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See “—The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.” For example, because of widespread state budget deficits, several states are evaluating ways to subject

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partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the 1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder's tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder's tax basis in the units), but will instead report the holder's allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or "CFC," and a Passive Foreign Investment Company, or "PFIC," may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

***The Blackstone Group L.P.'s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed

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above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

### ***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

### ***If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings Partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

### ***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or "ECI." Moreover, dividends paid by an investment that we make in a real estate investment trust, or "REIT," that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

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### ***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as deriving income that constitutes “unrelated business taxable income,” or “UBTI.” Consequently, a holder of common units that is a tax-exempt organization may be subject to “unrelated business income tax” to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

### ***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders’ tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

### ***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

### ***We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that common unitholders may be required to file amended income tax returns.***

It will most likely require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each common unitholder.



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### *Certain U.S. holders of common units are subject to additional tax on “net investment income.”*

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on “net investment income” (or undistributed “net investment income,” in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person’s adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in the Partnership will be included in a U.S. holder’s “net investment income” subject to this Medicare tax.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2013, we lease our offices in Atlanta, Beijing, Boston, Chicago, Dallas, Dubai, Dublin, Düsseldorf, Frankfurt, Hong Kong, Houston, Istanbul, London, Los Angeles, Menlo Park, Mumbai, Paris, San Francisco, Santa Monica, Seoul, Shanghai, Singapore, Sydney and Tokyo. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

### **ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “—Item 1A. Risk Factors” above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone’s financial results in any particular period.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts ( *Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.* ). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. After the conclusion of discovery, the plaintiffs filed an amended complaint in June 2012, in which the plaintiffs sought damages on behalf of public shareholders that tendered their shares in connection with 17 leveraged buyouts. In March 2013, the court denied defendants’ joint motion for summary judgment and all but one individual motion for summary judgment on plaintiffs’ overarching conspiracy claim but narrowed the scope of plaintiffs’ allegations. Consequently, the number of transactions for which plaintiffs are seeking damages has been reduced from 17 to eight transactions. The court has previously dismissed claims against Blackstone with respect to three of these eight transactions because Blackstone was released from any and all claims by the same shareholders in prior litigation. In July 2013, the court denied all but two defendants’ renewed individual motions for summary judgment, and in August 2013, the court granted another defendant’s motion for reconsideration and ordered summary judgment in favor of that defendant (there remain seven defendants, including Blackstone). In July 2013, the court also denied the motion by Blackstone and three other defendants for summary judgment on plaintiffs’ claim of a conspiracy with respect to the Hospital Corporation of America (HCA). On October 21, 2013, plaintiffs filed a motion for class certification and defendants filed an opposition to that motion on January 24, 2014. A hearing on plaintiffs’ class certification motion will take place after May 19, 2014. The

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Court has directed that new summary judgment motions be filed by August 1, 2014. Any trial of the action is scheduled to begin in early November 2014.

Blackstone believes that the foregoing suit is totally without merit and intends to defend it vigorously.

In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone's June 2007 initial public offering. These suits were subsequently consolidated into one complaint (*Landmen Partners Inc. v. The Blackstone Group L.P., et al.*) filed in the United States District Court for the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone's Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone's former Senior Chairman), Hamilton E. James (Blackstone's President and Chief Operating Officer) and Michael A. Puglisi (Blackstone's Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) one private equity investment would be adversely affected by trends in mortgage default rates, particularly for sub-prime mortgage loans, (b) another private equity investment was adversely affected by the loss of an exclusive manufacturing agreement, and (c) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone's real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1).

In September 2009 the District Court judge dismissed the complaint with prejudice, ruling that even if the allegations in the complaint were assumed to be true, the alleged omissions were immaterial. Analyzing both quantitative and qualitative factors, the District Court reasoned that the alleged omissions were immaterial as a matter of law given the size of the investments at issue relative to Blackstone as a whole, and taking into account Blackstone's structure as an asset manager and financial advisory firm.

In February 2011, a three-judge panel of the Second Circuit reversed the District Court's decision, ruling that the District Court incorrectly found that plaintiffs' allegations were, if true, immaterial as a matter of law. The Second Circuit disagreed with the District Court, concluding that the complaint "plausibly" alleged that the initial public offering documents omitted material information concerning two of Blackstone funds' individual investments and inadequately disclosed information relating to market risks to their real estate investments. Because this was a motion to dismiss, in reaching this decision the Second Circuit accepted all of the complaint's factual allegations as true and drew every reasonable inference in plaintiffs' favor. The Second Circuit did not consider facts other than those in the plaintiffs' complaint. On June 28, 2011, defendants filed a petition for writ of certiorari with the United States Supreme Court, which was subsequently denied. On August 8, 2011, defendants filed their answer to the complaint and discovery commenced. The parties completed factual discovery on March 29, 2013 and expert discovery on May 10, 2013. Briefing on defendants' motion for summary judgment seeking to dismiss the case was completed on June 21, 2013 and oral argument was held on August 14, 2013. On August 14, 2013, the District Court certified a class pursuant to the stipulation of the parties.

On August 28, 2013, the parties executed a settlement agreement and plaintiffs filed a motion for approval of the settlement agreement. On August 30, 2013, the District Court preliminarily approved the settlement agreement and ordered notice of the settlement be sent to class members. The settlement agreement provides for a payment to the class of \$85,000,000. The settlement payment was covered by insurance and did not have a material effect on our financial condition or results of operations. On December 18, 2013, the settlement was approved and the Court entered a final judgment dismissing the case. We consider the matter closed.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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### PART II.

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common units representing limited partner interests are traded on the New York Stock Exchange ("NYSE") under the symbol "BX." Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 21, 2014 was 81. This does not include the number of unitholders that hold common units in "street name" through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per common unit, for the periods indicated, as reported by the NYSE and the per unit common unitholder distributions for the indicated fiscal quarters:

	2013			2012		
	High	Low	Common Unitholder Distributions (a)	High	Low	Common Unitholder Distributions (a)
First Quarter	\$21.09	\$15.93	\$ 0.30	\$17.25	\$14.10	\$ 0.10
Second Quarter	\$23.80	\$18.76	\$ 0.23	\$16.06	\$11.13	\$ 0.10
Third Quarter	\$25.61	\$20.32	\$ 0.23	\$15.62	\$12.50	\$ 0.10
Fourth Quarter	\$31.94	\$24.54	\$ 0.58	\$15.84	\$13.31	\$ 0.42

(a) Per common unit, presented on a fiscal quarter basis.

#### Cash Distribution Policy

With respect to fiscal year 2013, we have paid to common unitholders distributions of \$0.30, \$0.23, \$0.23 and \$0.58 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.34 per common unit. We have also paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.31, \$0.28, \$0.26 and \$0.67 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.52 per Blackstone Holdings Partnership Unit.

With respect to fiscal year 2012, we paid distributions of \$0.10 per common unit in respect of each of the first three quarters and an additional \$0.42 per common unit in respect of the fourth quarter (aggregating \$0.72 per common unit for fiscal year 2012). With respect to fiscal year 2012, we paid distributions of \$0.10 per unit in respect of each of the first three quarters and an additional distribution of \$0.58 per Blackstone Holdings Partnership Unit in respect of the fourth quarter (aggregating \$0.88 per Blackstone Holdings Partnership Unit for fiscal year 2012).

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net

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Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

- First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),
- Second, we cause The Blackstone Group L.P.'s wholly owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreement by such wholly owned subsidiaries, and
- Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis.

Because the wholly owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 17. "Related Party Transactions" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data", the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

In addition, the partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and

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liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

### Unregistered Sales of Equity Securities

On December 31, 2013, we issued 1,541,199 common units to 17 current or former personnel as partial consideration in connection with the acquisition by us of GSO. The common units were not registered under the Securities Act and were issued in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act on the basis that the such issuance did not involve any public offering.

### Unit Repurchases in the Fourth Quarter of 2013

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended December 31, 2013, no units were repurchased. See “—Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 15. Net Income (Loss) Per Common Unit” and “—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Needs” for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

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### ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of financial condition and income data as of and for the five years ended December 31, 2013 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2013 and 2012 and the Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2010, 2009 and 2008 and the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with “—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$2,193,985	\$2,030,693	\$1,811,750	\$1,584,748	\$ 1,482,226
Performance Fees	3,544,057	1,593,052	1,182,660	937,834	221,090
Investment Income	800,308	350,194	213,323	561,161	40,604
Interest and Dividend Revenue and Other	74,818	45,502	44,843	35,599	29,779
<b>Total Revenues</b>	<u>6,613,168</u>	<u>4,019,441</u>	<u>3,252,576</u>	<u>3,119,342</u>	<u>1,773,699</u>
<b>Expenses</b>					
Compensation and Benefits	3,257,667	2,605,244	2,738,425	3,610,189	3,777,606
General, Administrative and Other	474,442	548,738	566,313	466,358	443,573
Interest Expense	107,973	72,870	57,824	41,229	13,384
Fund Expenses	26,658	33,829	25,507	26,214	7,296
<b>Total Expenses</b>	<u>3,866,740</u>	<u>3,260,681</u>	<u>3,388,069</u>	<u>4,143,990</u>	<u>4,241,859</u>
<b>Other Income</b>					
Reversal of Tax Receivable Agreement Liability	20,469	—	197,816	—	—
Net Gains from Fund Investment Activities	381,664	256,145	14,935	501,994	176,694
<b>Total Other Income</b>	<u>402,133</u>	<u>256,145</u>	<u>212,751</u>	<u>501,994</u>	<u>176,694</u>
<b>Income (Loss) Before Provision for Taxes</b>	3,148,561	1,014,905	77,258	(522,654)	(2,291,466)
<b>Provision for Taxes</b>	255,642	185,023	345,711	84,669	99,230
<b>Net Income (Loss)</b>	2,892,919	829,882	(268,453)	(607,323)	(2,390,696)
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	183,315	103,598	(24,869)	87,651	131,097
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	198,557	99,959	7,953	343,498	(14,328)
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	1,339,845	407,727	(83,234)	(668,444)	(1,792,174)
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>\$1,171,202</u>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>	<u>\$ (370,028)</u>	<u>\$ (715,291)</u>

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	Year Ended December 31,				
	2013	2012	2011	2010	2009
<b>Net Income (Loss) Per Common Unit, Basic and Diluted</b>					
Common Units, Basic	<u>\$2.00</u>	<u>\$0.41</u>	<u>\$(0.35)</u>	<u>\$(1.02)</u>	
Common Units, Diluted	<u>\$1.98</u>	<u>\$0.41</u>	<u>\$(0.35)</u>	<u>\$(1.02)</u>	
Common Units Entitled to Priority Distributions					<u>\$(2.46)</u>
Common Units Not Entitled to Priority Distributions					<u>\$(3.71)</u>
<b>Distributions Declared (a)</b>	<u>\$1.18</u>	<u>\$0.52</u>	<u>\$ 0.62</u>	<u>\$ 0.60</u>	<u>\$ 0.90</u>

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal year 2013, we declared a final fourth quarter distribution per common unit of \$0.58, which was paid in February 2014.

	December 31,				
	2013	2012	2011	2010	2009
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$29,678,606	\$28,931,552	\$21,909,129	\$18,844,605	\$9,409,024
Senior Notes	\$ 1,664,306	\$ 1,670,853	\$ 1,051,705	\$ 1,010,911	\$ 588,624
Total Liabilities (a)	\$15,300,935	\$17,716,605	\$12,656,843	\$10,591,248	\$2,865,491
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 1,950,442	\$ 1,556,185	\$ 1,091,833	\$ 659,390	\$ 526,311
Partners' Capital	\$12,427,229	\$ 9,658,762	\$ 8,160,453	\$ 7,593,967	\$6,017,222

- (a) The increase in total assets and total liabilities from December 31, 2009 to December 31, 2010 was principally due to the acquisition, in our Credit segment, of certain management agreements of certain CLO vehicles which, under accounting principles generally accepted in the United States of America ("GAAP"), are required to be consolidated. The increase in total assets and total liabilities from December 31, 2011 to December 31, 2012 was principally due to the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser and the resultant GAAP required consolidation of certain managed CLO vehicles.

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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

#### Our Business

Blackstone is one of the largest independent managers of private capital in the world. We also provide a wide range of financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into five business segments:

- **Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners ("BCP") funds. We also manage the Blackstone Tactical Opportunities Accounts ("Tactical Opportunities"), which are multi-asset class investment accounts, and Strategic Partners Fund Solutions ("Strategic Partners"), a secondary private fund of funds business acquired on August 5, 2013. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.
- **Real Estate.** We are a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage seven global opportunistic real estate funds, four European focused opportunistic real estate funds, an Asian focused opportunistic real estate fund, a number of real estate debt investment funds, collateralized debt obligation ("CDO") vehicles, a publicly traded REIT ("BXMT") and an acquired Asian real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ("BREP") funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ("BREDS") funds.
- **Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.
- **Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP ("GSO"), a global leader in managing credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ("CLO") vehicles.
- **Financial Advisory.** Our Financial Advisory segment serves a diverse and global group of clients with financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial and strategic advisory, restructuring and reorganization advisory, capital markets services and fund placement



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services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as “Performance Fees”). The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company’s industry, the overall economy and other market conditions.

### Business Environment

World equity and debt markets rose sharply in 2013, driven by signs of sustained economic improvement in developed markets as well as a general slowing of geopolitical tensions. The MSCI All-Country index rose 19.2% in 2013, with developed market indices sharply outperforming those of developing markets.

In the U.S., the S&P 500 index rose 29.6%, closing the year at then-record high levels, supported by improving economic growth, a decline in the stated unemployment rate, and the moderate easing of the divisive political environment that had negatively impacted the prior year. Credit indices rose as well, with the High Yield Index up 7.5% and the Leveraged Loan index rising 6.2%. Benchmark rates rose from historically low levels and high yield spreads narrowed by 120 basis points.

Risk tolerance improved throughout the year despite the Federal Reserve starting to taper its quantitative easing program, which was widely expected. The broad improvement helped drive a significant increase in capital markets activity, with sharp increases in both IPO activity and debt issuance.

Real estate capital markets in the U.S. continue to strengthen, with commercial mortgage backed securities issuance of \$86.1 billion, up 78.1% year to date. In Asia, Australian REITs are trading at 11.0% above net tangible asset value, the Japanese TSE REIT Index is up 35.9%, and India’s benchmark index is up 8.1% for the year. In Europe, capitalization rates have compressed approximately 14 basis points year over year. Real estate operating fundamentals continue to improve, driven by a lack of new supply and growth in demand. In the U.S., overall vacancy levels have declined 50 basis points to 14.9% and 30 basis points to 10.4% within the office and retail sectors, respectively for the year. In the U.S. hospitality sector, new construction remains significantly below historical levels and supply/demand fundamentals continue to support RevPAR (“Revenue per Available Room”) growth of 5.4% in 2013. On a national level, home prices have increased 13.4% for 2013.

Blackstone’s businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

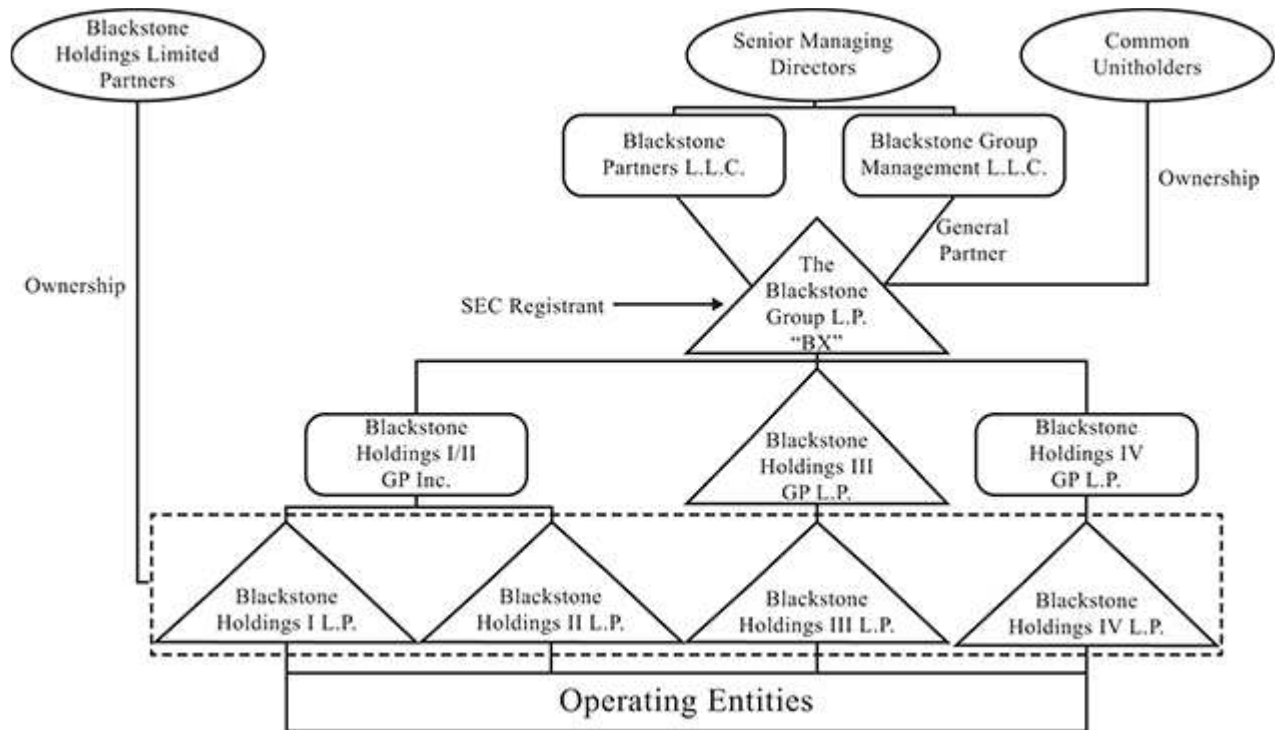
### Significant Transaction

On August 5, 2013, Blackstone completed its acquisition of Strategic Partners Fund Solutions, a secondary private fund of funds business.

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### Organizational Structure

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.



### Key Financial Measures and Indicators

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

#### Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to "Part I. Item 1. Business—Incentive Arrangements / Fee Structure" and "— Critical Accounting Policies, Revenue Recognition" for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net*—Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ("management fee

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reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the

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underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue*—Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue*—Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

*Compensation and Benefits—Compensation*— Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits—Performance Fee*—Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

*Other Operating Expenses*—Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses*—The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

### **Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to

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non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

### ***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### ***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

### ***Income Taxes***

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the consolidated financial statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone

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records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or "ISPI", as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

The Obama administration proposed policies similar to Congress that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposal would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2013 and prior years.

On February 26, 2014, Representative Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the "2014 Camp Proposal"). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws,

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rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a "worldwide" system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Senator Baucus recently proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

### *Economic Income*

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's initial public offering ("IPO") and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income ("ENI") represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP

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measure of Income (Loss) Before Provision for Taxes. (See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data”.)

### *Fee Related Earnings*

Blackstone uses Fee Related Earnings (“FRE”), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone’s investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone’s Treasury Cash Management Strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone’s Treasury Cash Management Strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See “—Liquidity and Capital Resources—Sources of Liquidity” below for our discussion of Fee Related Earnings.

### *Distributable Earnings*

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under accounting principles generally accepted in the United States of America (a “non-GAAP” measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See “—Liquidity and Capital Resources—Sources of Liquidity” below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

Blackstone amended its definition of Distributable Earnings in the second quarter of 2013 to exclude the expense of equity-based awards. Excluding this expense presents a better determination of amounts available for distribution to Blackstone unitholders. Distributable Earnings amounts presented for prior periods have been conformed to this presentation.

### *Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization*

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization (“Adjusted EBITDA”), is a supplemental measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See “—Liquidity and Capital Resources—Sources of Liquidity” below for our calculation of Adjusted EBITDA.

### *Summary Walkdown of GAAP to Non-GAAP Financial Metrics*

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see “—Liquidity and Capital Resources—Sources of Liquidity.”



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(Dollars in Millions)		<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>GAAP</b>	<b>Income Before Provision for Taxes</b>	<b>\$3,149</b>	<b>\$1,015</b>	<b>\$77</b>
	+ IPO and Acquisition-Related Charges			
	- Impact of Consolidated Funds			
<b>Economic Income "EI"</b>	<b>= Economic Income</b>	<b>\$3,596</b>	<b>\$2,041</b>	<b>\$1,585</b>
	- Net Performance Fees			
	- Fund Investment Income			
<b>Fee Related Earnings "FRE"</b>	<b>= Fee Related Earnings</b>	<b>\$745</b>	<b>\$700</b>	<b>\$546</b>
	+ Net Realized Performance Fees			
	+ Realized Investment Income			
	- Taxes and Related Payables			
	+ Equity-Based Compensation			
<b>Distributable Earnings "DE"</b>	<b>= Distributable Earnings</b>	<b>\$1,863</b>	<b>\$1,124</b>	<b>\$781</b>

### Operating Metrics

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,

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- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management*. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested*. Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

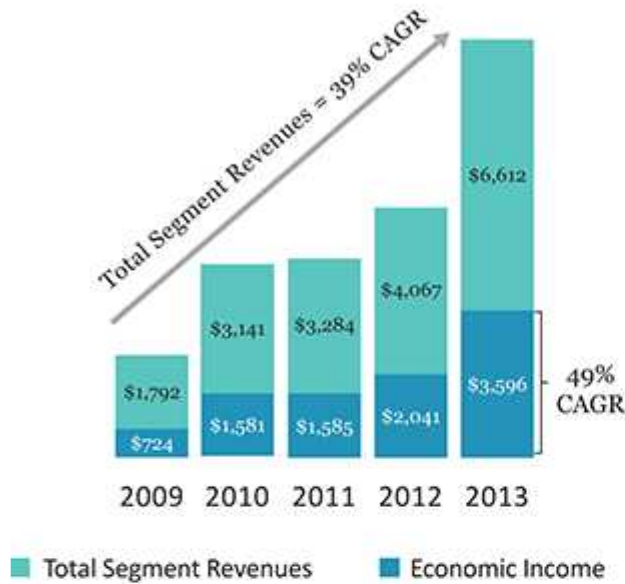
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**Financial Highlights**

The following charts highlight certain financial metrics <sup>(a)</sup>:

**Total Segment Revenues and Economic Income**

(Dollars in Millions)



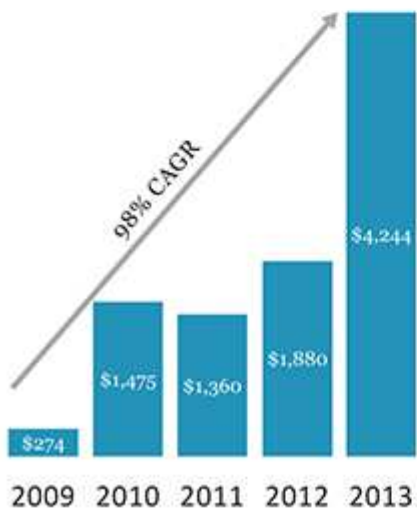
**Distributable Earnings**

(Dollars in Millions)



**Segment Performance Fee and Investment Income Revenues**

(Dollars in Millions)



**Net Performance Fee Receivable**

(Dollars in Millions)



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- (a) Total Segment Revenues and Segment Performance Fee and Investment Income Revenues represent the respective total segment amounts. See Note 21. “Segment Reporting” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data” of this filing. CAGR is the compound annual growth rate. Net Realization Activity represents the sum of Net Realized Incentive Fees, Net Realized Carried Interest, Net Realized Investment Income, Taxes and Related Payables and Equity-Based Compensation. For the components of Net Realization Activity, other than Economic Income, see the reconciliation of Fee Related Earnings, Distributable Earnings and Economic Net Income at “—Liquidity and Capital Resources—Sources of Liquidity” below. For Net Accrued Performance Fees, see “—Consolidated Results of Operations—Net Accrued Performance Fees” below. Net Performance Fee Receivable as of December 31, 2009 is not available.

### Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2013. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “—Segment Analysis” below.

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The following tables set forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$2,193,985	\$2,030,693	\$1,811,750	\$ 163,292	8%	\$ 218,943	12%
Performance Fees							
Realized							
Carried Interest	943,958	327,422	138,907	616,536	188%	188,515	136%
Incentive Fees	464,838	301,801	90,099	163,037	54%	211,702	235%
Unrealized							
Carried Interest	2,158,010	994,190	971,518	1,163,820	117%	22,672	2%
Incentive Fees	(22,749)	(30,361)	(17,864)	7,612	25%	(12,497)	-70%
Total Performance Fees	3,544,057	1,593,052	1,182,660	1,951,005	122%	410,392	35%
Investment Income							
Realized	188,644	93,963	87,542	94,681	101%	6,421	7%
Unrealized	611,664	256,231	125,781	355,433	139%	130,450	104%
Total Investment Income	800,308	350,194	213,323	450,114	129%	136,871	64%
Interest and Dividend Revenue	64,511	40,354	37,427	24,157	60%	2,927	8%
Other	10,307	5,148	7,416	5,159	100%	(2,268)	-31%
<b>Total Revenues</b>	<b>6,613,168</b>	<b>4,019,441</b>	<b>3,252,576</b>	<b>2,593,727</b>	<b>65%</b>	<b>766,865</b>	<b>24%</b>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	1,844,485	2,091,698	2,421,712	(247,213)	-12%	(330,014)	-14%
Performance Fee Compensation							
Realized							
Carried Interest	257,201	96,433	43,615	160,768	167%	52,818	121%
Incentive Fees	200,915	140,042	55,912	60,873	43%	84,130	150%
Unrealized							
Carried Interest	966,717	321,599	237,945	645,118	201%	83,654	35%
Incentive Fees	(11,651)	(44,528)	(20,759)	32,877	74%	(23,769)	-114%
Total Compensation and Benefits	3,257,667	2,605,244	2,738,425	652,423	25%	(133,181)	-5%
General, Administrative and Other	474,442	548,738	566,313	(74,296)	-14%	(17,575)	-3%
Interest Expense	107,973	72,870	57,824	35,103	48%	15,046	26%
Fund Expenses	26,658	33,829	25,507	(7,171)	-21%	8,322	33%
<b>Total Expenses</b>	<b>3,866,740</b>	<b>3,260,681</b>	<b>3,388,069</b>	<b>606,059</b>	<b>19%</b>	<b>(127,388)</b>	<b>-4%</b>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	20,469	—	197,816	20,469	N/M	(197,816)	-100%
Net Gains from Fund Investment Activities	381,664	256,145	14,935	125,519	49%	241,210	N/M
<b>Total Other Income</b>	<b>402,133</b>	<b>256,145</b>	<b>212,751</b>	<b>145,988</b>	<b>57%</b>	<b>43,394</b>	<b>20%</b>
<b>Income Before Provision for Taxes</b>	<b>3,148,561</b>	<b>1,014,905</b>	<b>77,258</b>	<b>2,133,656</b>	<b>210%</b>	<b>937,647</b>	<b>N/M</b>
<b>Provision for Taxes</b>	<b>255,642</b>	<b>185,023</b>	<b>345,711</b>	<b>70,619</b>	<b>38%</b>	<b>(160,688)</b>	<b>-46%</b>
<b>Net Income (Loss)</b>	<b>2,892,919</b>	<b>829,882</b>	<b>(268,453)</b>	<b>2,063,037</b>	<b>249%</b>	<b>1,098,335</b>	<b>N/M</b>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>183,315</b>	<b>103,598</b>	<b>(24,869)</b>	<b>79,717</b>	<b>77%</b>	<b>128,467</b>	<b>N/M</b>
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	<b>198,557</b>	<b>99,959</b>	<b>7,953</b>	<b>98,598</b>	<b>99%</b>	<b>92,006</b>	<b>N/M</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<b>1,339,845</b>	<b>407,727</b>	<b>(83,234)</b>	<b>932,118</b>	<b>229%</b>	<b>490,961</b>	<b>N/M</b>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$1,171,202</b>	<b>\$ 218,598</b>	<b>\$ (168,303)</b>	<b>\$ 952,604</b>	<b>436%</b>	<b>\$ 386,901</b>	<b>N/M</b>

N/M Not meaningful.

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### *Revenues*

Total Revenues were \$6.6 billion for the year ended December 31, 2013, an increase of \$2.6 billion, or 65%, compared to \$4.0 billion for the year ended December 31, 2012. Performance Fees and Investment Income increased between these periods by \$2.0 billion and \$450.1 million, respectively, and Management and Advisory Fees, Net increased by \$163.3 million.

Performance Fees in our Real Estate segment increased by \$1.3 billion due to the strong performance of our BREP carry funds and were primarily driven by valuation gains on investments within our BREP VI and BREP VII funds. The valuation gains were driven by the successful initial public offerings of Hilton, Extended Stay and Brixmor as well as gains resulting from improving fundamentals of Equity Office and Invitation Homes. Performance Fees in our Private Equity segment increased by \$470.0 million principally due to performance in our BCP IV, BEP and BCP VI funds, which had net returns of 23%, 36% and 12%, respectively. Performance Fees increased by \$123.0 million in our Hedge Fund Solutions segment due to the increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle, and therefore eligible for Performance Fees. Performance Fees increased by \$88.4 million in our Credit segment due to higher returns in our hedge fund strategies funds and continued strong underlying company performance in the portfolios of our carry funds.

The increase in Investment Income was primarily due to increases in our Real Estate and Private Equity segments of \$266.4 million and \$138.6 million, respectively. The increase in our Real Estate segment was driven by valuation gains on investments across our global Real Estate funds including the successful initial public offerings of Hilton, Extended Stay and Brixmor. The increase in our Private Equity segment was driven by returns across all of our significant funds. The portfolio benefited from strong performance of our public holdings through the year, including the successful initial public offerings of Pinnacle Foods, SeaWorld Parks & Entertainment, Merlin Entertainments and Hilton, while our private portfolio benefited from investments in the healthcare, industrial and retail/consumer sectors.

The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions segment of \$61.6 million, our Financial Advisory segment of \$53.9 million, our Private Equity segment of \$16.7 million and our Real Estate segment of \$13.6 million. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Financial Advisory segment was due to the number and size of transactions completed during the year ended December 31, 2013 compared to the prior year. The increase in our Private Equity segment was primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles as well as the addition of the Strategic Partners secondary private fund of funds business. The increase in our Real Estate segment was primarily driven by the increase in funds raised for our BREP Asia, BREP Europe IV, BXMT and BREDS II funds offset by the expiration of the BREP IV fund and decrease in management fees earned by the acquired Asian real estate platform.

Total Revenues were \$4.0 billion for the year ended December 31, 2012, an increase of \$766.9 million compared to \$3.3 billion for the year ended December 31, 2011. The increase in revenues was primarily driven by increases of \$410.4 million in Performance Fees, \$218.9 million in Management and Advisory Fees and \$136.9 million in Investment Income. The increase in Performance Fees was due (a) to increases in the net returns of the performance fee generating funds in the Private Equity segment that were greater than the prior year, (b) a 14.4% increase in the carrying value of assets for Blackstone's contributed Real Estate funds primarily due to the continued improvement of operating fundamentals, particularly in our hospitality, office and retail holdings, (c) an increase in Fee-Earning Assets Under Management in the Hedge Funds Solutions segment related to funds of hedge funds above their respective high water marks and/or hurdle during the year ended December 31, 2012, and (d) a higher rate of appreciation in our Credit segment in the year ended December 31, 2012 compared to the year ended December 31, 2011, with net returns of 13.4% for the hedge funds, 26.2% for the mezzanine funds and 15.7% for the rescue lending funds for the year ended December 31, 2012. The increase in Management and Advisory Fees was primarily attributable to an increase in Fee-Earning Assets Under Management of 23% during the current year across the segments. The increase in Investment Income is primarily due to the increases in unrealized appreciation due to the increase in fair value of investments.

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### *Expenses*

Expenses were \$3.9 billion for the year ended December 31, 2013, an increase of \$606.1 million, or 19%, compared to \$3.3 billion for the year ended December 31, 2012. The increase was primarily attributable to increases in Total Compensation and Benefits of \$652.4 million and Interest Expense of \$35.1 million, partially offset by a \$74.3 million decrease in General, Administrative and Other. The increase in Total Compensation and Benefits was comprised of a \$899.6 million increase in Performance Fee Compensation due to the increase in Performance Fees Revenue and partially offset by a \$247.2 million decrease in Compensation due mainly to a decrease in the equity-based amortization charges on our transaction-related awards. The \$35.1 million increase in Interest Expense was primarily related to Blackstone's issuance of senior notes during the third quarter of 2012. These increases were partially offset by a \$74.3 million decrease in General, Administrative and Other, which was primarily due to decreases in depreciation and amortization and professional expenses.

Expenses were \$3.3 billion for the year ended December 31, 2012, a decrease of \$127.4 million, or 4%, compared to \$3.4 billion for the year ended December 31, 2011. The decrease was primarily attributable to a decrease of \$133.2 million in Compensation and Benefits. Compensation decreased \$330.0 million from the prior year period to \$2.1 billion as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2011 while Performance Fee Compensation increased \$196.8 million due to the increases in Performance Fees revenue. General, Administrative and Other expenses were \$548.7 million for the current year period, a decrease of \$17.6 million driven primarily by a decrease in amortization expense partially offset by increases in business development and professional expenses related to new investment products offered across the segments. Interest Expense was \$72.9 million for the current year, an increase of \$15.0 million from the same period of 2011 primarily due to Blackstone's issuance of senior notes in 2012.

### *Other Income*

Other Income was \$402.1 million for the year ended December 31, 2013, an increase of \$146.0 million compared to \$256.1 million for the year ended December 31, 2012. The increase was comprised of an increase in Net Gains from Fund Investment Activities of \$125.5 million and income attributable to the reversal of the tax receivable agreement liability of \$20.5 million.

Other Income—Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income was eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

Other Income—Net Gains from Fund Investment Activities was \$381.7 million for the year ended December 31, 2013, an increase of \$125.5 million compared to \$256.1 million for the year ended December 31, 2012. This increase was primarily comprised of increases in our Hedge Fund Solutions, Real Estate and Private Equity segments of \$111.3 million, \$67.7 million and \$54.3 million, respectively, partially offset by a decrease of \$107.8 million in our Credit segment. The increase in our Hedge Fund Solutions segment was primarily the result of an increase in investment performance from certain of our consolidated funds. The Real Estate increase in 2013 was driven by valuation gains on investments across our global Real Estate funds. The Private Equity increase in 2013 was driven by returns across all of our significant funds. The decrease in our Credit segment was primarily due to higher valuations on the liabilities of the consolidated CLO vehicles, which led to increases in unrealized losses.

Also included in Other Income in 2013 was \$20.5 million of income attributable to the reversal of the tax receivable agreement liability.

Other Income—Net Gains from Fund Investment Activities was \$256.1 million for the year ended December 31, 2012, an increase of \$241.2 million compared to \$14.9 million for the year ended December 31, 2011. The increase of \$241.2 million was substantially due to increases in the income related to our investments in our consolidated CLO vehicles.

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Also included in Other Income in 2011 was \$197.8 million of Other Income attributable to the reversal of the tax receivable agreement liability. The liability reduction resulted from certain corporate subsidiaries adopting New York State and New York City tax laws for sourcing of revenue for apportionment purposes, which reduced the effective tax rate for such corporate subsidiaries. This, in turn, reduced the expected future tax savings that would result in payments due to certain non-controlling interest holders under the tax receivable agreements.

### *Provision for Taxes*

Blackstone's Provision for Taxes for the years ended December 31, 2013, 2012 and 2011 was \$255.6 million, \$185.0 million and \$345.7 million, respectively. This resulted in an effective tax rate of 8.1%, 18.2% and 447.5%, respectively, based on our Income Before Provision for Taxes of \$3.1 billion, \$1.0 billion and \$77.3 million, respectively.

Two factors contributed to the 10.1% decrease in the effective tax rate for the year ended December 31, 2013 compared to the year ended December 31, 2012. First, pre-tax book income includes pre-tax income of \$2.6 billion for 2013 and pre-tax income of \$683.2 million for 2012 that is passed through to common unit holders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. The year over year change resulted in a decrease to the effective tax rate of 5.1% when comparing 2013 to 2012.

Second, in both 2013 and 2012, book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense does not change significantly in 2013 compared to 2012, the impact of the effective tax rate increase was 1.6% and 9.3% in 2013 and 2012, respectively, resulting from the significant increase in pre-tax book income in 2013 compared to 2012.

Several factors contributed to the 429.3% decrease in the effective tax rate for the year ended December 31, 2012 compared to the year ended December 31, 2011. First, the decrease in the effective tax rate was largely due to the reversal of \$233.7 million of deferred tax assets as a result of the application of New York State and New York City tax laws during 2011, which resulted in a lower apportionment of income subject to tax in New York State and New York City. The lower apportionment of income to New York State and New York City also resulted in an income tax benefit of \$69.2 million for the exclusion of \$197.8 million book income realized from the reduction to the tax receivable agreement liability. The reversal of the deferred tax assets less the benefit of the income exclusion resulted in a significant increase to the 2011 effective tax rate that was not repeated for 2012 and a 203.0% decrease in the effective tax rate when comparing 2012 to 2011.

Second, pre-tax book income includes pre-tax income of \$683.2 million for 2012 and pre-tax loss of \$169.7 million for 2011 that is passed through to common unit holders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. The year over year change resulted in a decrease to the effective rate of 100.4% when comparing 2012 to 2011.

Third, in both 2012 and 2011, book equity-based compensation expense exceeded the tax deductible equity based-compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense did not change significantly in 2012 compared to 2011, the amount of pretax book income to which the amount of excess book expense was compared increased significantly in 2012 compared to 2011. This caused the effective tax rates to increase by 9.3% and 132.4% in 2012 and 2011, respectively, resulting in the decrease of 123.1% to the effective tax rate in 2012 compared to 2011.

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.



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Additional information regarding our income taxes can be found in Note 14. “Income Taxes” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data” of this filing.

### *Non-Controlling Interests in Consolidated Entities*

The Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income—Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities and the Reversal of Tax Receivable Agreement Liability, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the years ended December 31, 2013, 2012 and 2011, the net income before taxes allocated to Blackstone Holdings was 49.3%, 53.1% and 57.4%, respectively. The decreases of 3.8% and 4.3% were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

The Other Income—Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

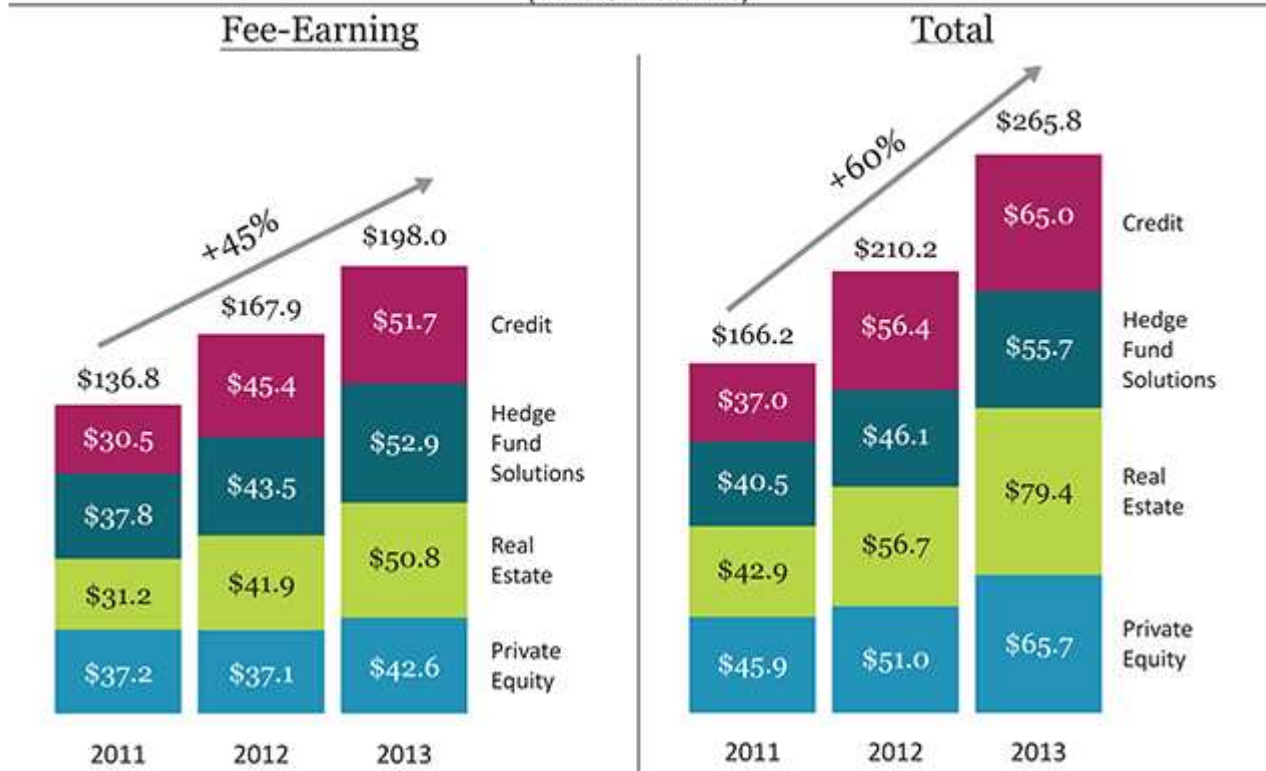
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*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the years ended December 31, 2013, 2012 and 2011. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see “—Key Financial Measures and Indicators—Operating Metrics—Assets Under Management and Fee-Earning Assets Under Management”.

**Assets Under Management by Segment**

(Dollars in Billions)



Note: Totals may not add due to rounding.

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	Year Ended December 31,									
	2013					2012				
	Hedge Fund					Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)									
Fee-Earning Assets Under Management										
Balance, Beginning of Period	\$37,050,167	\$41,931,339	\$ 43,478,791	\$45,420,143	\$167,880,440	\$37,237,791	\$31,236,540	\$ 37,819,636	\$30,462,786	\$136,756,753
Inflows, including Commitments (a)	9,884,340	13,835,625	9,098,002	15,382,428	48,200,395	2,628,583	14,584,089	5,460,096	20,055,005	42,727,773
Outflows, including Distributions (b)	(392,882)	(1,329,763)	(3,626,636)	(2,085,211)	(7,434,492)	—	(1,486,257)	(2,871,612)	(1,700,137)	(6,058,006)
Realizations (c)	(4,025,167)	(3,649,494)	(348,126)	(8,871,543)	(16,894,330)	(2,844,946)	(2,530,057)	(143,677)	(4,811,088)	(10,329,768)
Net Inflows (Outflows)	5,466,291	8,856,368	5,123,240	4,425,674	23,871,573	(216,363)	10,567,775	2,444,807	13,543,780	26,339,999
Market Appreciation (Depreciation) (d)	84,057	5,096	4,263,806	1,876,767	6,229,726	28,739	127,024	3,214,348	1,413,577	4,783,688
Balance, End of Period (e)	<u>\$42,600,515</u>	<u>\$50,792,803</u>	<u>\$ 52,865,837</u>	<u>\$51,722,584</u>	<u>\$197,981,739</u>	<u>\$37,050,167</u>	<u>\$41,931,339</u>	<u>\$ 43,478,791</u>	<u>\$45,420,143</u>	<u>\$167,880,440</u>
Increase (Decrease)	\$ 5,550,348	\$ 8,861,464	\$ 9,387,046	\$ 6,302,441	\$ 30,101,299	\$ (187,624)	\$10,694,799	\$ 5,659,155	\$14,957,357	\$ 31,123,687
Increase (Decrease)	15%	21%	22%	14%	18%	-1%	34%	15%	49%	23%

	Year Ended December 31,				
	2011				
	Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)				
Fee-Earning Assets Under Management					
Balance, Beginning of Period	\$24,188,555	\$26,814,714	\$ 33,159,795	\$25,337,158	\$109,500,222
Inflows, including Commitments (a)	16,297,887	7,844,635	9,677,992	9,928,845	43,749,359
Outflows, including Distributions (b)	(2,493,160)	(2,026,993)	(2,863,303)	(1,280,522)	(8,663,978)
Realizations (c)	(747,853)	(1,352,763)	(450,042)	(3,501,539)	(6,052,197)
Net Inflows	13,056,874	4,464,879	6,364,647	5,146,784	29,033,184
Market Appreciation (d)	(7,638)	(43,053)	(1,704,806)	(21,156)	(1,776,653)
Balance, End of Period (e)	<u>\$37,237,791</u>	<u>\$31,236,540</u>	<u>\$ 37,819,636</u>	<u>\$30,462,786</u>	<u>\$136,756,753</u>
Increase	\$13,049,236	\$ 4,421,826	\$ 4,659,841	\$ 5,125,628	\$ 27,256,531
Increase	54%	16%	14%	20%	25%

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	Year Ended December 31,									
	2013					2012				
	Hedge Fund					Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)									
Total Assets Under Management										
Balance, Beginning of Period	\$51,002,973	\$56,695,645	\$ 46,092,505	\$ 56,428,837	\$210,219,960	\$45,863,673	\$42,852,669	\$ 40,534,768	\$36,977,394	\$166,228,504
Inflows, including Commitments (a)	14,420,278	17,686,592	9,337,644	18,834,429	60,278,943	4,233,716	12,566,140	5,338,892	24,489,441	46,628,189
Outflows, including Distributions (b)	(653,357)	(1,049,598)	(3,854,587)	(2,810,710)	(8,368,252)	(76,495)	(262,300)	(2,983,054)	(2,429,344)	(5,751,193)
Realizations (c)	(9,584,276)	(8,298,220)	(447,960)	(11,195,989)	(29,526,445)	(3,452,647)	(3,926,671)	(184,798)	(5,179,250)	(12,743,366)
Net Inflows	4,182,645	8,338,774	5,035,097	4,827,730	22,384,246	704,574	8,377,169	2,171,040	16,880,847	28,133,630
Market Appreciation (Depreciation) (d)	10,489,413	14,376,369	4,529,861	3,757,781	33,153,424	4,434,726	5,465,807	3,386,697	2,570,596	15,857,826
Balance, End of Period (e)	<u>\$65,675,031</u>	<u>\$79,410,788</u>	<u>\$ 55,657,463</u>	<u>\$ 65,014,348</u>	<u>\$265,757,630</u>	<u>\$51,002,973</u>	<u>\$56,695,645</u>	<u>\$ 46,092,505</u>	<u>\$56,428,837</u>	<u>\$210,219,960</u>
Increase	\$14,672,058	\$22,715,143	\$ 9,564,958	\$ 8,585,511	\$ 55,537,670	\$ 5,139,300	\$13,842,976	\$ 5,557,737	\$19,451,443	\$ 43,991,456
Increase	29%	40%	21%	15%	26%	11%	32%	14%	53%	26%

	Year Ended December 31,				
	2011				
	Hedge Fund				
	Private Equity	Real Estate	Solutions	Credit	Total
	(Dollars in Thousands)				
Total Assets Under Management					
Balance, Beginning of Period	\$29,319,136	\$33,165,124	\$ 34,587,292	\$ 31,052,368	\$128,123,920
Inflows, including Commitments (a)	18,620,779	8,297,282	11,303,991	11,292,641	49,514,693
Outflows, including Distributions (b)	(76,632)	(432,938)	(3,070,287)	(1,488,803)	(5,068,660)
Realizations (c)	(4,195,682)	(2,546,701)	(552,165)	(4,184,206)	(11,478,754)
Net Inflows	14,348,465	5,317,643	7,681,539	5,619,632	32,967,279
Market Appreciation (d)	2,196,072	4,369,902	(1,734,063)	305,394	5,137,305
Balance, End of Period (e)	<u>\$45,863,673</u>	<u>\$42,852,669</u>	<u>\$ 40,534,768</u>	<u>\$ 36,977,394</u>	<u>\$166,228,504</u>
Increase	\$16,544,537	\$ 9,687,545	\$ 5,947,476	\$ 5,925,026	\$ 38,104,584
Increase	56%	29%	17%	19%	30%

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.

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- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2013 included \$283.4 million and \$313.4 million, respectively, from a joint venture in which we are the minority interest holder.

### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$198.0 billion at December 31, 2013, an increase of \$30.1 billion, or 18%, compared to \$167.9 billion at December 31, 2012. The net increase was due to:

- Inflows of \$48.2 billion related to:
  - \$15.4 billion in our Credit segment driven by \$4.8 billion raised in our business development companies (“BDCs”), \$3.9 billion raised in our other vehicles, \$3.7 billion raised in CLO launches, \$1.6 billion raised in Hedge Fund Strategies, and \$1.4 billion of capital deployed in our Mezzanine and Rescue Lending Funds,
  - \$13.8 billion in our Real Estate segment primarily related to \$5.5 billion raised for our fourth European fund, \$3.2 billion raised for our first Asian fund, \$1.6 billion of co-investment capital raised across our funds, \$1.3 billion for our second debt strategies fund and \$714.6 million in BXMT,
  - \$9.9 billion in our Private Equity segment primarily due to \$7.0 billion related to the acquisition of Strategic Partners as well as \$2.7 billion in additional capital raised for our Tactical Opportunities investment vehicles, and
  - \$9.1 billion in our Hedge Fund Solutions segment mainly related to growth in its customized products, the launch of BAAM’s first alternative investment-focused mutual fund and growth in commingled products.
- Market appreciation of \$6.2 billion principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment as well as from the hedge fund strategies and business development companies in our Credit segment.

Offsetting these increases were:

- Realizations of \$16.9 billion primarily driven by:
  - \$8.9 billion in our Credit segment primarily due to \$6.9 billion returned to CLO investors from CLOs that are post their reinvestment periods and \$1.9 billion returned across the Mezzanine and Rescue Lending funds,
  - \$4.0 billion in our Private Equity segment primarily resulting from \$2.6 billion return of capital from our BCP V fund, including Nielsen (\$308.6 million), SeaWorld Parks & Entertainment (\$196.1 million), Pinnacle Foods (\$157.4 million), and \$744.3 million from our BCP IV fund including Vanguard (\$286.2 million), TDC (\$134.9 million) and TRW Automotive (\$119.4 million), and
  - \$3.6 billion in our Real Estate segment primarily due to \$2.1 billion of realizations in our BREDS funds, \$602.6 million in our BREP VI fund and \$460.3 million in our BREP V fund.

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- Outflows of \$7.4 billion primarily attributable to:
  - \$3.6 billion in our Hedge Fund Solutions segment primarily due to the liquidity needs of limited partners,
  - \$2.1 billion in our Credit segment primarily from our long-only platform, and
  - \$1.3 billion in our Real Estate segment primarily due to the end of BREP Europe III's investment period and redemptions from the debt strategies hedge funds.

BAAM had net inflows of \$1.5 billion from January 1 through February 1, 2014.

Fee-Earning Assets Under Management were \$167.9 billion at December 31, 2012, an increase of \$31.1 billion, or 23%, compared to \$136.8 billion at December 31, 2011. The net increase was due to:

- Inflows of \$42.7 billion related to:
  - \$20.1 billion in our Credit segment resulting from the launch of our third closed-end fund, the pricing of three new CLOs, deploying limited partner capital in our carry funds, inflows across our long-only platform and the acquisition of Harbourmaster on January 5, 2012,
  - \$14.6 billion in our Real Estate segment primarily driven by capital committed to BREP VII, invested capital in our BREDS funds and \$2.2 billion from the Capital Trust (renamed BXMT) transaction in December 2012,
  - \$5.5 billion in our Hedge Fund Solutions segment mainly related to growth in its commingled and customized investment products, and
  - \$2.6 billion in our Private Equity segment primarily due to the commencement of the investment period for our Tactical Opportunities investment vehicles, additional capital raised for our energy focused fund, Blackstone Energy Partners ("BEP"), and investments made from funds that earn fees on invested capital.
- Market appreciation of \$4.8 billion principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment and steady appreciation in certain credit-focused funds in our Credit segment.

Offsetting these increases were:

- Realizations of \$10.3 billion driven by:
  - \$4.8 billion in our Credit segment primarily due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds,
  - \$2.8 billion in our Private Equity segment primarily as a result of the dispositions of investments in funds which earn fees based on remaining invested capital, and
  - \$2.5 billion in our Real Estate segment attributable to the sales of various investments across the real estate segment's funds which earn fees on invested capital.
- Outflows of \$6.1 billion primarily attributable to:
  - \$2.9 billion in our Hedge Fund Solutions segment due to the liquidity needs of limited partners,
  - \$1.7 billion in our Credit segment primarily from our long-only platform and hedge funds, and
  - \$1.5 billion in our Real Estate segment due primarily to the ending of BREP IV's partnership term in December 2012 which ceased earning management fees on invested capital.

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### *Total Assets Under Management*

Total Assets Under Management were \$265.8 billion at December 31, 2013, an increase of \$55.5 billion, or 26%, compared to \$210.2 billion at December 31, 2012. The net increase was due to:

- Inflows of \$60.3 billion primarily related to:
  - \$18.8 billion in our Credit segment due to the reasons noted above in Fee-Earning Assets Under Management in addition to \$2.1 billion of commitments to our Rescue Lending funds and \$728.9 million to our Mezzanine funds,
  - \$17.7 billion in our Real Estate segment attributable to multiple closings on our latest European, first Asia and second debt strategies funds, the completion of a secondary and convertible debt offering by BXMT and co-investment capital raised,
  - \$14.4 billion in our Private Equity segment due primarily to \$9.4 billion related to the acquisition of Strategic Partners, \$3.5 billion of additional capital raised for our Tactical Opportunities investment vehicles and \$687.7 million related to the first close on our next Strategic Partners fund, and
  - \$9.3 billion in our Hedge Fund Solutions segment due primarily to the reasons noted above in Fee-Earning Assets Under Management in addition to the \$1.1 billion initial close of our first permanent capital vehicle acquiring general partner interests in hedge funds.
- Market appreciation of \$33.2 billion due to:
  - \$14.4 billion in our Real Estate segment driven by successful initial public offerings of Hilton (\$5.5 billion), Extended Stay Hotels (\$697.0 million) and Brixmor (\$600.5 million), as well as valuation gains resulting from improving fundamentals of Equity Office Properties (\$1.0 billion) and Invitation Homes (\$911.7 million),
  - \$10.5 billion in our Private Equity segment driven by successful initial public offerings in our BCP V fund totaling \$3.7 billion (Hilton (\$2.0 billion), Pinnacle Foods (\$1.1 billion), SeaWorld Parks & Entertainment (\$536.4 million)) and in our BCP IV fund of \$1.0 billion (Merlin Entertainments); in total, public portfolio appreciation of 49.5% created \$6.6 billion of value,
  - \$4.5 billion in our Hedge Fund Solutions segment driven by \$4.1 billion of appreciation in customized and commingled funds; BAAM's Principal Solutions Composite up 12.8% gross, and
  - \$3.8 billion in our Credit segment primarily driven by \$1.5 billion of gains in Hedge Fund Strategies and BDCs as well as \$1.5 billion of appreciation in our carry funds.

Offsetting these increases were:

- Realizations of \$29.5 billion driven by:
  - \$11.2 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds,
  - \$9.6 billion in our Private Equity segment due to realization activity through public markets, strategic sales and credit markets,
  - \$8.3 billion in our Real Estate segment primarily due to realizations from various investments across the segment, primarily from our BREP funds (\$5.9 billion) and BREDS funds (\$1.4 billion).
- Outflows of \$8.4 billion primarily attributable to:
  - \$3.9 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners,
  - \$2.8 billion in our Credit segment primarily from our long-only platform, and

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- \$1.0 billion in our Real Estate segment primarily due to the termination of the investment period of certain BREDS drawdown funds and redemptions within the debt strategies hedge funds.

Total Assets Under Management were \$210.2 billion at December 31, 2012, an increase of \$44.0 billion, or 26%, compared to \$166.2 billion at December 31, 2011. The net increase was due to:

- Inflows of \$46.6 billion primarily related to:
  - \$24.5 billion in our Credit segment resulting from inflows in our hedge funds, the final closing of our most recent mezzanine fund, the first closing of our most recent rescue lending fund, inflows across our long-only platform and the acquisition of Harbourmaster on January 5, 2012,
  - \$12.6 billion in our Real Estate segment driven by capital committed to BREP VII and \$2.3 billion from the Capital Trust transaction in December 2012,
  - \$5.3 billion in our Hedge Fund Solutions segment due to growth in its customized and commingled investment products, and
  - \$4.2 billion in our Private Equity segment due to the closing on our Tactical Opportunities investment vehicles and additional closings on our BEP fund.
- Market appreciation of \$15.9 billion due to:
  - \$5.5 billion in our Real Estate segment driven by valuation gains resulting from strong operating fundamentals of Equity Office Properties (\$782.1 million), Brixmor (\$667.9 million), Hilton (\$361.5 million) and General Growth Properties (\$305.5 million),
  - \$4.4 billion in our Private Equity segment due to appreciation of our publicly traded holdings particularly from the appreciation of our investment in Cheniere and our successful initial public offering of PBF Energy and private investments in the energy, retail/consumer and hospitality/leisure sectors,
  - \$3.4 billion in our Hedge Fund Solutions segment due to solid returns from the BAAM Principal Solutions funds, and
  - \$2.6 billion in our Credit segment due to steady appreciation in our carry funds, hedge funds and certain credit-focused funds across our long-only platform.

Offsetting these increases were:

- Realizations of \$12.7 billion driven by:
  - \$5.2 billion in our Credit segment due to capital returned to CLO investors from CLOs that were post their reinvestment periods and realizations in our carry funds,
  - \$3.9 billion in our Real Estate segment primarily due to \$1.5 billion of realizations in our BREP VI fund; \$892.5 million in our BREDS funds; \$407.0 million in our BREP V fund and \$330.3 million in our BREP VII fund, and
  - \$3.5 billion in our Private Equity segment due to opportunistic realizations in BCP V, particularly Alliant (\$534.8 million), SeaWorld (\$319.5 million) and PBF (\$297.7 million) and in BCP IV, particularly the sales of public holdings in Team Health (\$686.9 million) and TDC (\$326.0 million).
- Outflows of \$5.8 billion primarily attributable to:
  - \$3.0 billion in our Hedge Fund Solutions segment due to the same reasons noted in Fee-Earning Assets Under Management above, and
  - \$2.4 billion in our Credit segment primarily from our long-only platform and hedge funds.



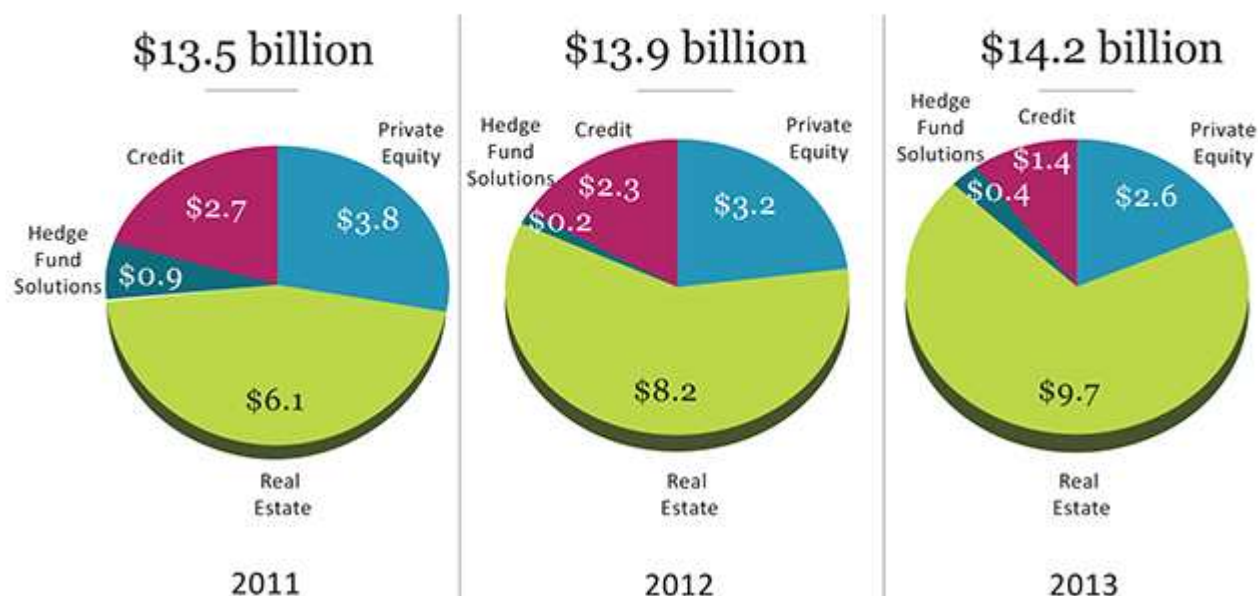
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### Limited Partner Capital Invested

The following presents the limited partner capital invested during the respective periods:

## Limited Partner Capital Invested

(Dollars in Billions, Except Title)



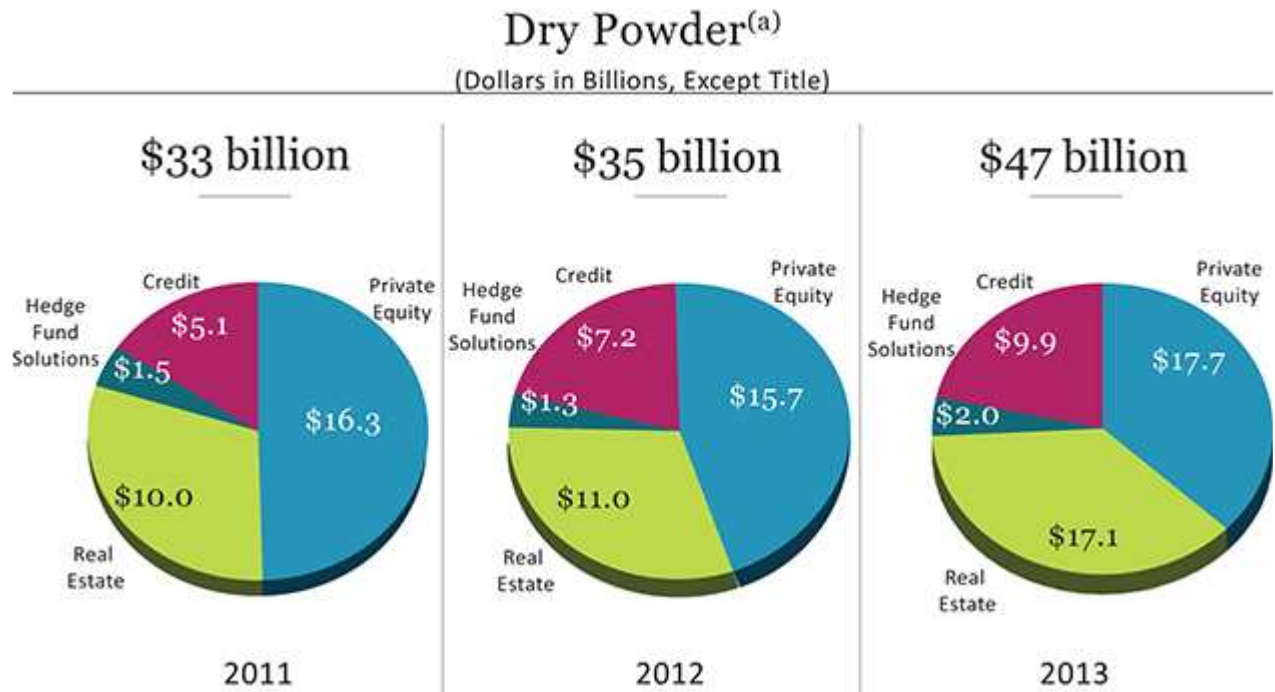
Note: Totals in graph may not add due to rounding.

	Year Ended December 31,			2012 vs. 2011		2013 vs. 2012	
	2011	2012	2013	\$	%	\$	%
Limited Partner Capital Invested							
Private Equity	\$ 3,848,954	\$ 3,223,535	\$ 2,568,582	\$ (625,419)	-16%	\$ (654,953)	-20%
Real Estate	6,141,416	8,218,175	9,741,277	2,076,759	34%	1,523,102	19%
Hedge Fund Solutions	889,259	200,841	431,275	(688,418)	-77%	230,434	115%
Credit	2,650,137	2,256,420	1,438,570	(393,717)	-15%	(817,850)	-36%
Total	<u>\$13,529,766</u>	<u>\$13,898,971</u>	<u>\$14,179,704</u>	<u>\$ 369,205</u>	<u>3%</u>	<u>\$ 280,733</u>	<u>2%</u>

Limited Partner Capital Invested was \$14.2 billion for the year ended December 31, 2013, an increase of \$280.7 million, or 2%, from \$13.9 billion for the year ended December 31, 2012. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed capital at a slower rate in 2013 than in 2012 as market conditions made it more challenging to find opportunities that fit within our investment philosophy. We committed capital to new Private Equity investments in 2013 but due to certain conditions to close, these investments are not expected to close until 2014. Our Real Estate segment deployed capital at a faster rate in 2013 than in 2012. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform. In our Credit segment, capital deployed for the year ended December 31, 2013 was lower compared to the year ended December 31, 2012 due to a more challenging investment environment.

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The following presents the committed undrawn capital available for investment (“dry powder”) as of December 31, 2013, 2012 and 2011:



Note: Totals may not add due to rounding. Amounts are as of December 31 of each year.

(a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.

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### Net Accrued Performance Fees

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2013 and 2012. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 18. “Commitments and Contingencies—Contingencies—Contingent Obligations (Clawback)” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data” of this filing.

	December 31,	
	2013	2012
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 424	\$ 582
BCP V Carried Interest	26	—
BCP VI Carried Interest	108	22
BEP Carried Interest	65	38
Tactical Opportunities Carried Interest	8	2
Strategic Partners V Carried Interest	1	—
Total Private Equity (a)	<u>632</u>	<u>644</u>
<b>Real Estate</b>		
BREP V Carried Interest	603	448
BREP VI Carried Interest	1,264	610
BREP VII Carried Interest	293	82
BREP International I Carried Interest	2	2
BREP Europe III Carried Interest	155	74
BREP Asia Carried Interest	4	—
BREDS Carried Interest	12	19
BREDS Incentive Fees	4	7
Asia Platform Incentive Fees	10	23
Total Real Estate (a)	<u>2,347</u>	<u>1,265</u>
<b>Hedge Fund Solutions</b>		
Incentive Fees	144	67
Total Hedge Fund Solutions	<u>144</u>	<u>67</u>
<b>Credit</b>		
Carried Interest	173	144
Incentive Fees	104	118
Total Credit	<u>277</u>	<u>262</u>
<b>Total Blackstone</b>		
Carried Interest	3,138	2,023
Incentive Fees	262	215
Net Accrued Performance Fees	<u>\$3,400</u>	<u>\$2,238</u>

(a) Private Equity and Real Estate include Co-Investments.

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### *Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:



Note: Totals may not add due to rounding. Amounts are as of December 31.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

### *Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2013:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)		
			MOIC			MOIC		MOIC		Realized	Total	
			Value	(b)	% Public	Value	(b)	Value	(b)			
(Dollars in Thousands, Except Where Noted)												
<b>Private Equity</b>												
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$ —	\$ —	N/A	—	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%	
BCP II (Oct 1993 / Aug 1997)	1,361,100	—	—	N/A	—	3,256,819	2.5x	3,256,819	2.5x	32%	32%	
BCP III (Aug 1997 / Nov 2002)	3,967,422	—	—	N/A	—	9,184,688	2.3x	9,184,688	2.3x	14%	14%	
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	225,356	1.1x	—	2,619,040	1.4x	2,844,396	1.3x	7%	5%	
BCP IV (Nov 2002 / Dec 2005)	6,773,138	234,535	4,122,422	2.1x	66%	17,167,004	3.1x	21,289,426	2.8x	46%	37%	
BCP V (Dec 2005 / Jan 2011)	21,024,025	1,459,100	21,730,495	1.6x	46%	7,982,798	1.3x	29,713,293	1.5x	5%	7%	
BCP VI (Jan 2011 / Jan 2017)	15,176,699	10,440,379	5,149,585	1.3x	25%	467,034	1.5x	5,616,619	1.4x	26%	11%	
BEP (Aug 2011 / Aug 2017)	2,423,572	1,462,591	1,324,309	2.0x	59%	218,847	1.4x	1,543,156	1.9x	20%	55%	
Total Corporate Private Equity	53,722,367	13,795,903	32,552,167	1.6x	45%	42,637,968	2.1x	75,190,135	1.8x	20%	16%	
Tactical Opportunities	4,906,599	3,623,819	1,419,729	1.1x	8%	112,200	1.1x	1,531,929	1.1x	18%	14%	
Strategic Partners	13,078,843	3,328,622	5,964,811	1.6x	N/A	9,280,114	1.3x	15,244,925	1.4x	N/A	14%	
Other Funds and Co-Invest (d)	1,210,951	150,858	518,118	0.6x	50%	20,890	1.0x	539,008	0.6x	N/M	N/M	
Total Private Equity	<u>\$72,918,760</u>	<u>\$20,899,202</u>	<u>\$40,454,825</u>	<u>1.5x</u>	<u>42%</u>	<u>\$52,051,172</u>	<u>1.9x</u>	<u>\$92,505,997</u>	<u>1.7x</u>	<u>20%</u>	<u>15%</u>	

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			MOIC			MOIC		MOIC		Realized	Total
			Value	(b)	% Public	Value	(b)	Value	(b)		
(Dollars in Thousands, Except Where Noted)											
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$ —	\$ —	N/A	—	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	—	—	N/A	—	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	—	—	N/A	—	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	—	2,161	0.1x	—	3,325,133	2.4x	3,327,294	2.4x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	—	1,394,262	1.0x	—	3,091,303	2.4x	4,485,565	1.6x	66%	14%
BREP V (Dec 2005 / Feb 2007)	5,538,579	243,946	7,144,648	1.8x	—	3,496,273	2.0x	10,640,921	1.8x	29%	10%
BREP VI (Feb 2007 / Aug 2011)	11,057,280	656,849	18,726,900	2.1x	62%	3,562,643	2.1x	22,289,543	2.1x	24%	14%
BREP VII (Aug 2011 / Feb 2017)	14,512,884	5,771,958	10,775,482	1.4x	3%	1,467,953	1.6x	12,243,435	1.4x	43%	30%
Total Global Real Estate Funds	\$36,549,906	\$ 6,672,753	\$38,043,453	1.7x	31%	\$19,147,816	2.1x	\$57,191,269	1.8x	27%	17%
<b>Euro</b>											
BREP Int'l (Jan 2001 / Sep 2005)	€ 824,172	€ —	€ 104,405	1.2x	—	€ 1,235,480	2.2x	€ 1,339,885	2.0x	25%	23%
BREP Int'l II (Sep 2005 / Jun 2008)	1,627,954	80,188	1,464,376	1.2x	45%	198,004	1.2x	1,662,380	1.2x	3%	2%
BREP Europe III (Jun 2008 / Dec 2013)	3,203,848	633,457	3,590,801	1.5x	—	491,882	1.8x	4,082,683	1.5x	26%	17%
BREP Europe IV (Sep 2013 / Mar 2019)	4,138,214	3,699,039	482,005	1.0x	—	—	N/A	482,005	1.0x	N/A	4%
Total Euro Real Estate Funds	€ 9,794,188	€ 4,412,684	€ 5,641,587	1.3x	12%	€ 1,925,366	1.9x	€ 7,566,953	1.4x	24%	10%
BREP Co-Investment (e)	\$ 5,160,385	\$ —	\$ 8,424,422	1.8x	69%	\$ 700,979	1.5x	\$ 9,125,401	1.8x	18%	17%
BREP Asia (Jun 2013 / Dec 2017)	3,247,727	2,695,256	669,067	1.1x	—	—	N/A	669,067	1.1x	N/A	56%
Total Real Estate	\$57,682,409	\$15,432,082	\$54,719,266	1.6x	34%	\$22,319,606	2.1x	\$77,038,872	1.8x	26%	16%
BREDS I	\$ 2,840,704	\$ 452,965	\$ 1,759,288	1.2x	—	\$ 2,346,502	1.3x	\$ 4,105,790	1.2x	15%	12%
BREDS II	3,334,676	2,247,733	1,132,398	1.0x	—	—	N/A	1,132,398	1.0x	N/A	11%
Total BREDS (f)	\$ 6,175,380	\$ 2,700,698	\$ 2,891,686	1.1x	—	\$ 2,346,502	1.3x	\$ 5,238,188	1.2x	15%	12%
<b>Credit (g)</b>											
Mezzanine	\$ 6,120,000	\$ 3,047,070	\$ 3,061,806	1.3x	—	\$ 3,959,095	1.6x	\$ 7,020,901	1.5x	N/A	19%
Rescue Lending	8,378,143	5,313,337	4,249,064	1.5x	—	1,687,866	1.2x	5,936,930	1.4x	N/A	18%
Total Credit	\$14,498,143	\$ 8,360,407	\$ 7,310,870	1.4x	—	\$ 5,646,961	1.4x	\$12,957,831	1.4x		

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N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital (“MOIC”) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return (“IRR”) represents the annualized inception to December 31, 2013 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest. Net IRRs for BREP Europe IV, BREP Asia and BREDS II are calculated from commencement of their respective investment periods which, being less than one year, are not annualized.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment’s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) Excludes Capital Trust drawdown funds.
- (g) The Total Investments MOIC for Mezzanine and Rescue Lending Funds, excluding recycled capital during the investment period, was 1.9x and 1.5x, respectively.

### Segment Analysis

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to “our” sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

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### Private Equity

The following table presents the results of operations for our Private Equity segment:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 368,146	\$348,594	\$331,997	\$ 19,552	6%	\$ 16,597	5%
Transaction and Other Fees, Net	96,988	100,080	133,004	(3,092)	-3%	(32,924)	-25%
Management Fee Offsets	(5,683)	(5,926)	(27,073)	243	4%	21,147	78%
Total Management Fees, Net	<u>459,451</u>	<u>442,748</u>	<u>437,928</u>	<u>16,703</u>	<u>4%</u>	<u>4,820</u>	<u>1%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	329,993	109,797	37,393	220,196	201%	72,404	194%
<b>Unrealized</b>							
Carried Interest	398,232	148,381	33,490	249,851	168%	114,891	343%
Total Performance Fees	<u>728,225</u>	<u>258,178</u>	<u>70,883</u>	<u>470,047</u>	<u>182%</u>	<u>187,295</u>	<u>264%</u>
<b>Investment Income</b>							
Realized	88,026	25,823	44,988	62,203	241%	(19,165)	-43%
Unrealized	161,749	85,337	9,476	76,412	90%	75,861	801%
Total Investment Income	249,775	111,160	54,464	138,615	125%	56,696	104%
Interest and Dividend Revenue	15,602	13,556	13,749	2,046	15%	(193)	-1%
Other	4,259	2,417	1,810	1,842	76%	607	34%
Total Revenues	<u>1,457,312</u>	<u>828,059</u>	<u>578,834</u>	<u>629,253</u>	<u>76%</u>	<u>249,225</u>	<u>43%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	236,120	222,709	217,556	13,411	6%	5,153	2%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	38,953	3,679	1,465	35,274	959%	2,214	151%
<b>Unrealized</b>							
Carried Interest	342,733	58,555	(2,229)	284,178	485%	60,784	N/M
Total Compensation and Benefits	617,806	284,943	216,792	332,863	117%	68,151	31%
Other Operating Expenses	124,137	130,845	120,918	(6,708)	-5%	9,927	8%
Total Expenses	<u>741,943</u>	<u>415,788</u>	<u>337,710</u>	<u>326,155</u>	<u>78%</u>	<u>78,078</u>	<u>23%</u>
Economic Income	<u>\$ 715,369</u>	<u>\$412,271</u>	<u>\$241,124</u>	<u>\$303,098</u>	<u>74%</u>	<u>\$171,147</u>	<u>71%</u>

N/M Not meaningful.

### Revenues

Revenues were \$1.5 billion for the year ended December 31, 2013, an increase of \$629.3 million compared to \$828.1 million for the year ended December 31, 2012. The increase in revenues was attributable to increases in Performance Fees, Investment Income and Total Management Fees of \$470.0 million, \$138.6 million and \$16.7 million, respectively.



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Performance Fees, which are determined on a fund by fund basis, were \$728.2 million for the year ended December 31, 2013, an increase of \$470.0 million, compared to \$258.2 million for the year ended December 31, 2012, principally due to performance in our BCP IV, BEP and BCP VI funds, which had net returns of 23%, 36% and 12%, respectively. A significant portion of the performance fees were realized, with activity that included secondary sales from our publicly traded portfolio in TRW, Team Health, Merlin Entertainments, TDC and Kosmos and strategic dispositions of certain portfolio companies including Vanguard Healthcare, Alta Energy and Knight Capital.

Investment Income was \$249.8 million for the year ended December 31, 2013, an increase of \$138.6 million, compared to \$111.2 million for the year ended December 31, 2012, driven by returns across all of our significant funds. The portfolio benefited from strong performance of our public holdings through the year, including the successful initial public offerings of Pinnacle Foods, SeaWorld Parks & Entertainment, Merlin Entertainments and Hilton, while our private portfolio benefited from investments in the healthcare, industrial and retail/consumer sectors.

Total Management Fees were \$459.5 million for the year ended December 31, 2013, an increase of \$16.7 million compared to \$442.7 million for the year ended December 31, 2012, driven primarily by an increase in Base Management Fees. Base Management Fees were \$368.1 million for the year ended December 31, 2013, an increase of \$19.6 million compared to \$348.6 million for the year ended December 31, 2012, primarily due to the increase in the funds raised for our Tactical Opportunities investment vehicles as well as the addition of the Strategic Partners secondary private fund of funds business.

Revenues were \$828.1 million for the year ended December 31, 2012, an increase of \$249.2 million compared to \$578.8 million for the year ended December 31, 2011. The increase in revenues was primarily attributed to increases in Performance Fees, Investment Income and Total Management Fees of \$187.3 million, \$56.7 million and \$4.8 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$258.2 million for the year ended December 31, 2012, an increase of \$187.3 million, compared to \$70.9 million for the year ended December 31, 2011, principally due to our performance fee generating funds achieving net returns for the full year that were greater than the returns generated in the prior year. These larger returns were mostly generated from investments in the energy sector as well as from our publicly traded investments, specifically Cheniere, TRW and Team Health.

Investment Income was \$111.2 million, an increase of \$56.7 million, compared to \$54.5 million for the year ended December 31, 2011, driven by our investments in the energy, hospitality/leisure and retail/consumer industries as well as our public holdings.

Total Management Fees were \$442.7 million for the year ended December 31, 2012, an increase of \$4.8 million compared to \$437.9 million for the year ended December 31, 2011, driven by increased Base Management Fees and a reduction in Management Fee Offsets, and a decrease in Transaction and Other Fees. Base Management Fees were \$348.6 million for the year ended December 31, 2012, an increase of \$16.6 million compared to \$332.0 million for the year ended December 31, 2011, principally as a result of additional capital raised for our BEP fund as well as the commencement of the investment period for our Tactical Opportunities investment vehicles. Transaction and Other Fees were \$100.1 million for the year ended December 31, 2012, a decrease of \$32.9 million compared to \$133.0 million for the year ended December 31, 2011, principally as a result of one time fees earned in the prior year from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

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### Expenses

Expenses were \$741.9 million for the year ended December 31, 2013, an increase of \$326.2 million, compared to \$415.8 million for the year ended December 31, 2012. The increase was primarily attributable to increases of \$319.5 million in Performance Fee Compensation and \$13.4 million in Compensation. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to the addition of the Strategic Partners secondary private fund of funds business and the growth of our Tactical Opportunities business.

Expenses were \$415.8 million for the year ended December 31, 2012, an increase of \$78.1 million, compared to \$337.7 million for the year ended December 31, 2011. The \$78.1 million increase was primarily attributed to a \$63.0 million increase in Performance Fee Compensation, \$5.2 million increase in Compensation and \$9.9 million increase in Other Operating Expenses. The increase in Performance Fee Compensation was driven by the increase in Performance Fees Revenue. Compensation increased as a portion of it is related to the segment's results, exclusive of Performance Fees and Investment Income, as well as compensation related to business growth. The increase in Other Operating Expenses of \$9.9 million was primarily due to increases in interest expense and other expenses allocated to the segment.

### Fund Returns

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (b)	Year Ended December 31,						December 31, 2013 Inception to Date			
	2013		2012 (a)		2011 (a)		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	27%	23%	17%	16%	9%	8%	60%	46%	50%	37%
BCP V	38%	35%	12%	11%	5%	5%	7%	5%	8%	7%
BCP VI (c)	20%	12%	23%	26%	N/M	N/M	35%	26%	22%	11%
BEP (c)	36%	36%	62%	90%	N/M	N/M	27%	20%	54%	55%
Tactical Opportunities	18%	13%	N/M	N/M	N/A	N/A	12%	18%	21%	14%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective fund's general and limited partners.
- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- 2011 returns for BCP VI and BEP are not meaningful as a material portion of the funds' capital had not been invested.

The corporate private equity funds within the Private Equity segment have three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of December 31, 2013, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining

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investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V “main fund” and BCP V-AC fund. Within these fund classes, the general partner (“GP”) is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM’s net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of December 31, 2013:

<u>Funds out of the Investment Period</u>	<u>Gain to Cross Carried Interest Threshold (a)</u>		
	<u>Amount</u>	<u>% Change in Total Enterprise Value (b)</u> (Dollars in Millions)	<u>% Change in Equity Value</u>
BCP V (Dec 2005 / Jan 2011) (c)	\$ 1,596	4%	9%
BCP V-AC (c)	(344)	-9%	-16%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund’s investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund’s pro rata ownership of the portfolio companies’ Enterprise Value at the reporting date.
- (c) The BCP V main fund is currently below its Carried Interest threshold while the BCP V-AC fund is above its Carried Interest threshold. BCP V’s two fund classes, in total, are accruing Carried Interest.

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### Real Estate

The following table presents the results of operations for our Real Estate segment:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 565,182	\$ 551,322	\$ 394,778	\$ 13,860	3%	\$ 156,544	40%
Transaction and Other Fees, Net	79,675	85,681	109,510	(6,006)	-7%	(23,829)	-22%
Management Fee Offsets	(22,821)	(28,609)	(4,950)	5,788	20%	(23,659)	-478%
Total Management Fees, Net	622,036	608,394	499,338	13,642	2%	109,056	22%
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	486,773	165,114	22,844	321,659	195%	142,270	623%
Incentive Fees	45,862	25,656	9,629	20,206	79%	16,027	166%
<b>Unrealized</b>							
Carried Interest	1,651,700	683,764	913,418	967,936	142%	(229,654)	-25%
Incentive Fees	(28,753)	(119)	3,658	(28,634)	N/M	(3,777)	N/M
Total Performance Fees	2,155,582	874,415	949,549	1,281,167	147%	(75,134)	-8%
<b>Investment Income</b>							
<b>Realized</b>							
Unrealized	52,359	45,302	27,972	7,057	16%	17,330	62%
Total Investment Income	350,201	90,875	92,648	259,326	285%	(1,773)	-2%
Interest and Dividend Revenue	402,560	136,177	120,620	266,383	196%	15,557	13%
Other	21,563	14,448	12,902	7,115	49%	1,546	12%
Total Revenues	3,205,125	1,634,328	1,581,348	1,570,797	96%	52,980	3%
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	294,222	271,122	236,771	23,100	9%	34,351	15%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	148,837	62,418	10,103	86,419	138%	52,315	518%
Incentive Fees	23,878	13,060	4,564	10,818	83%	8,496	186%
<b>Unrealized</b>							
Carried Interest	566,837	165,482	221,140	401,355	243%	(55,658)	-25%
Incentive Fees	(15,015)	(583)	3,106	(14,432)	N/M	(3,689)	N/M
Total Compensation and Benefits	1,018,759	511,499	475,684	507,260	99%	35,815	8%
Other Operating Expenses	116,391	123,714	103,859	(7,323)	-6%	19,855	19%
Total Expenses	1,135,150	635,213	579,543	499,937	79%	55,670	10%
Economic Income	\$2,069,975	\$ 999,115	\$1,001,805	\$1,070,860	107%	\$ (2,690)	-0%

N/M Not meaningful.

### Revenues

Revenues were \$3.2 billion for the year ended December 31, 2013, an increase of \$1.6 billion compared to \$1.6 billion for the year ended December 31, 2012. The increase in revenues was primarily attributable to an increase of \$1.3 billion in Performance Fees and a \$266.4 million increase in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$2.2 billion for the year ended December 31, 2013, an increase of \$1.3 billion compared to \$874.4 million for the year ended December 31, 2012. Performance Fees increased due to the strong performance of our BREP carry funds and were primarily

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driven by valuation gains on investments within our BREP VI and BREP VII funds. The valuation gains were driven by the successful initial public offerings of Hilton, Extended Stay and Brixmor as well as gains resulting from improving fundamentals of Equity Office and Invitation Homes. For the year ended December 31, 2013, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 31.3%. Our BREDS drawdown and real estate hedge funds appreciated 10.4% and 15.6%, respectively.

Investment Income was \$402.6 million for the year ended December 31, 2013, an increase of \$266.4 million compared to \$136.2 million for the year ended December 31, 2012. The increase in Investment Income was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Revenues improved \$53.0 million to \$1.6 billion for the year ended December 31, 2012. The increase in revenues was primarily attributed to an increase of \$109.1 million in Total Management Fees and an increase of \$15.6 million in Investment Income, partially offset by a decrease of \$75.1 million in Performance Fees.

Total Management Fees were \$608.4 million for the year ended December 31, 2012, an increase of \$109.1 million compared to \$499.3 million for the year ended December 31, 2011. Base Management Fees were \$551.3 million for the year ended December 31, 2012, an increase of \$156.5 million compared to \$394.8 million for the year ended December 31, 2011, primarily related to fees generated from the final closing of additional commitments for BREP VII. Transaction and Other Fees were \$85.7 million for the year ended December 31, 2012, a decrease of \$23.8 million compared to \$109.5 million for the year ended December 31, 2011, which was primarily related to a decrease in the acquisition fee rate charge on completed transactions.

Investment Income was \$136.2 million for the year ended December 31, 2012, an increase of \$15.6 million compared to \$120.6 million for the year ended December 31, 2011. The increase was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Performance Fees, which are determined on a fund by fund basis, were \$874.4 million for the year ended December 31, 2012, a decrease of \$75.1 million compared to \$949.5 million for the year ended December 31, 2011. Performance Fees continued to benefit from the strong performance of our BREP carry funds. However, the year over year comparison was impacted by a decrease in the net appreciation of our BREP V and BREP VI carry funds' investments and the effect of the "catch-up" provision in the prior year. For the year ended December 31, 2012, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 14.4% driven by the continued improvement of operating fundamentals, particularly in our hospitality, office and retail holdings. Our BREDS drawdown and real estate hedge funds appreciated 13.0% and 18.1%, respectively.

### *Expenses*

Expenses were \$1.1 billion for the year ended December 31, 2013, an increase of \$499.9 million, compared to \$635.2 million for the year ended December 31, 2012. The increase was primarily attributable to an increase of Performance Fee Compensation of \$484.2 million as a result of an increase in Performance Fees Revenue and an increase in Compensation of \$23.1 million primarily due to the acquisition of BXMT and the growth of our real estate business.

Expenses were \$635.2 million for the year ended December 31, 2012, an increase of \$55.7 million, compared to \$579.5 million for the year ended December 31, 2011. The increase was primarily attributed to a \$34.4 million increase in Compensation and a \$19.9 million increase in Other Operating Expenses. Compensation rose \$34.4 million to \$271.1 million primarily due to headcount increases and the improved results of the segment, exclusive of Performance Fees and Investment Income. Other Operating Expenses increased \$19.9 million to \$123.7 million for the year ended December 31, 2012, principally due to increases in interest expense and other expenses allocated to the segment.

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### Fund Returns

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2013			
	2013		2012		2011		Inception to Date		Total	
	Gross	Net	Gross	Net	Gross	Net	Realized Gross	Realized Net	Gross	Net
BREP International (b)	0%	0%	30%	21%	44%	33%	35%	25%	33%	23%
BREP IV	28%	21%	5%	2%	11%	7%	98%	66%	24%	14%
BREP V	19%	15%	17%	13%	21%	14%	39%	29%	14%	10%
BREP International II (b)	32%	30%	-2%	-4%	4%	2%	8%	3%	4%	2%
BREP VI	43%	35%	15%	11%	21%	13%	30%	24%	18%	14%
BREP Europe III (b)	23%	17%	19%	12%	42%	26%	36%	26%	31%	17%
BREP VII (c)	41%	29%	51%	32%	—	N/M	65%	43%	44%	30%
BREP Asia	N/M	N/M	N/A	N/A	N/A	N/A	N/A	N/A	104%	56%
BREP Europe IV	N/M	N/M	N/A	N/A	N/A	N/A	N/A	N/A	25%	4%
BREDS	15%	11%	20%	15%	9%	7%	19%	15%	17%	12%
BSSF I	14%	10%	23%	18%	4%	2%	N/A	N/A	15%	11%
CMBS	11%	7%	19%	14%	1%	-1%	N/A	N/A	17%	12%
BREP Co-Investment (d)	43%	39%	15%	13%	27%	23%	14%	18%	18%	17%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based net internal rates of return.
- (c) The BREP VII investment period commenced in August 2011.
- (d) Excludes fully realized co-investments prior to Blackstone's initial public offering.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2013:

Fully Invested Funds	Gain to Cross Carried Interest Threshold (a)		
	Amount	% Change in Total Enterprise	% Change in Equity Value
		Value (b) (Amounts in Millions)	
BREP Int'l II (Sep 2005 / Jun 2008)	€ 880	20%	65%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.

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(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has five funds in their investment period, which were above their respective Carried Interest thresholds as of December 31, 2013: BREP VII, BREP Asia, BREDS II and two funds within BREDS I.

### Hedge Fund Solutions

The following table presents the results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$409,321	\$346,210	\$315,863	\$ 63,111	18%	\$ 30,347	10%
Transaction and Other Fees, Net	623	188	2,798	435	231%	(2,610)	-93%
Management Fee Offsets	(3,387)	(1,414)	(980)	(1,973)	-140%	(434)	-44%
Total Management Fees, Net	<u>406,557</u>	<u>344,984</u>	<u>317,681</u>	<u>61,573</u>	<u>18%</u>	<u>27,303</u>	<u>9%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Incentive Fees	207,735	83,433	11,472	124,302	149%	71,961	627%
<b>Unrealized</b>							
Incentive Fees	7,718	9,042	774	(1,324)	-15%	8,268	N/M
Total Performance Fees	<u>215,453</u>	<u>92,475</u>	<u>12,246</u>	<u>122,978</u>	<u>133%</u>	<u>80,229</u>	<u>655%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Incentive Fees	27,613	7,270	17,722	20,343	280%	(10,452)	-59%
<b>Unrealized</b>							
Incentive Fees	(9,306)	8,517	(19,031)	(17,823)	N/M	27,548	N/M
Total Investment Income (Loss)	<u>18,307</u>	<u>15,787</u>	<u>(1,309)</u>	<u>2,520</u>	<u>16%</u>	<u>17,096</u>	<u>N/M</u>
Interest and Dividend Revenue	7,605	2,139	2,025	5,466	256%	114	6%
Other	688	3,816	7,902	(3,128)	-82%	(4,086)	-52%
Total Revenues	<u>648,610</u>	<u>459,201</u>	<u>338,545</u>	<u>189,409</u>	<u>41%</u>	<u>120,656</u>	<u>36%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	136,470	119,731	128,959	16,739	14%	(9,228)	-7%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Incentive Fees	65,793	23,080	3,498	42,713	185%	19,582	560%
<b>Unrealized</b>							
Incentive Fees	2,856	1,317	234	1,539	117%	1,083	463%
Total Compensation and Benefits	<u>205,119</u>	<u>144,128</u>	<u>132,691</u>	<u>60,991</u>	<u>42%</u>	<u>11,437</u>	<u>9%</u>
Other Operating Expenses	<u>66,966</u>	<u>57,809</u>	<u>65,072</u>	<u>9,157</u>	<u>16%</u>	<u>(7,263)</u>	<u>-11%</u>
Total Expenses	<u>272,085</u>	<u>201,937</u>	<u>197,763</u>	<u>70,148</u>	<u>35%</u>	<u>4,174</u>	<u>2%</u>
Economic Income	<u>\$376,525</u>	<u>\$257,264</u>	<u>\$140,782</u>	<u>\$119,261</u>	<u>46%</u>	<u>\$116,482</u>	<u>83%</u>

N/M Not meaningful.

### Revenues

Revenues were \$648.6 million for the year ended December 31, 2013, an increase of \$189.4 million compared to \$459.2 million for the year ended December 31, 2012. The increase in revenues was primarily attributable to an increase of \$123.0 million in Performance Fees and an increase of \$61.6 million in Total Management Fees.

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Performance Fees were \$215.5 million for the year ended December 31, 2013, an increase of \$123.0 million compared to \$92.5 million for the year ended December 31, 2012. This was primarily due to an increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle, and therefore eligible for performance fees. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 11.4% during the year ended December 31, 2013.

Total Management Fees were \$406.6 million for the year ended December 31, 2013, an increase of \$61.6 million compared to \$345.0 million for the year ended December 31, 2012, primarily due to an increase in Base Management Fees. Base Management Fees were \$409.3 million for the year ended December 31, 2013, an increase of \$63.1 million compared to \$346.2 million for the year ended December 31, 2012. This was driven by an increase in Fee-Earning Assets Under Management of 22% from the prior year, which was from net inflows and market appreciation.

Revenues were \$459.2 million for the year ended December 31, 2012, an increase of \$120.7 million compared to \$338.5 million for the year ended December 31, 2011. The increase in revenues was primarily attributable to an increase of \$80.2 million in Performance Fees to \$92.5 million, an increase of \$27.3 million in Total Management Fees to \$345.0 million and an increase of \$17.1 million in Investment Income (Loss) to \$15.8 million.

Performance Fees were \$92.5 million for the year ended December 31, 2012, an increase of \$80.2 million compared to \$12.2 million for the year ended December 31, 2011, primarily due to higher returns. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 8.6% during the year ended December 31, 2012. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was a result of the better performance of the underlying assets of the segment.

Total Management Fees were \$345.0 million for the year ended December 31, 2012, an increase of \$27.3 million compared to \$317.7 million for the year ended December 31, 2011. Base Management Fees were \$346.2 million for the year ended December 31, 2012, an increase of \$30.3 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 15% from the prior year period, which was primarily from net inflows.

Investment Income (Loss) was \$15.8 million for the year ended December 31, 2012, an increase of \$17.1 million compared to \$(1.3) million for the year ended December 31, 2011. The increase in Investment Income (Loss) was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share.

### *Expenses*

Expenses were \$272.1 million for the year ended December 31, 2013, an increase of \$70.1 million compared to the year ended December 31, 2012. The increase was attributable to a \$44.3 million increase in Performance Fee Compensation, a \$16.7 million increase in Compensation and a \$9.2 million increase in Other Operating Expenses. Performance Fee Compensation was \$68.6 million for the year ended December 31, 2013, an increase of \$44.3 million compared to \$24.4 million for the year ended December 31, 2012 due to the increase in Performance Fees Revenue. Compensation was \$136.5 million for the year ended December 31, 2013, an increase of \$16.7 million compared to \$119.7 million for the prior year, as a portion of it was related to the segment's results, exclusive of Performance Fees and Investment Income. Other Operating Expenses were \$67.0 million for the year ended December 31, 2013, an increase of \$9.2 million compared to \$57.8 million for the year ended December 31, 2012, primarily resulting from an increase in interest expense allocated to the segment.



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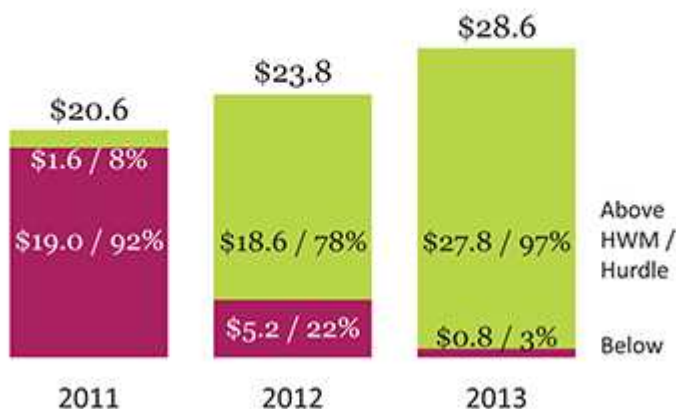
Expenses were \$201.9 million for the year ended December 31, 2012, an increase of \$4.2 million compared to the year ended December 31, 2011. The \$4.2 million increase was primarily attributed to a \$20.7 million increase in Performance Fee Compensation, partially offset by decreases in Compensation and Other Operating Expenses of \$9.2 million and \$7.3 million, respectively. Performance Fee Compensation was \$24.4 million for the year ended December 31, 2012 compared to \$3.7 million for the prior year, primarily due to the increase in Performance Fees Revenue described above. Compensation was \$119.7 million for the year ended December 31, 2012, a decrease of \$9.2 million, compared to \$129.0 million for the prior year, primarily driven by the exit of our Asian mutual fund business. Other Operating Expenses decreased \$7.3 million to \$57.8 million for the year ended December 31, 2012, compared to \$65.1 million for the year ended December 31, 2011, primarily due to a decrease in limited partner placement fees that corresponds to a reduction in related commitments.

### Operating Metrics

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

## Incentive Fee-Earning Assets Under Management

(Dollars in Billions)



	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark and/or Hurdle (a)		
	December 31,			December 31,		
	2011	2012	2013	2011	2012	2013
BAAM Managed Funds (b)	\$20,568,234	\$23,790,415	\$28,640,505	8%	78%	97%

Note: Totals in graph may not add due to rounding.

- (a) Estimated % Above High Water Mark and/or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and/or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at December 31, 2013 the incremental appreciation needed for the 3% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was \$54.2 million, a decrease of \$213.4 million, or 79.7%, compared to \$267.6 million at December 31, 2012. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of December 31, 2013, 30% were within 5% of reaching their respective High Water Mark and/or Hurdle.

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### Composite Returns

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

Composite	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2013							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	13%	11%	7%	6%	10%	8%	8%	7%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions Composite, formerly known as BAAM's Core Funds Composite, covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments) and advisory platforms.

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### Credit

The following table presents the results of operations for our Credit segment:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$398,158	\$345,277	\$238,547	\$ 52,881	15%	\$106,730	45%
Transaction and Other Fees, Net	28,586	40,875	1,880	(12,289)	-30%	38,995	N/M
Management Fee Offsets	(40,329)	(5,004)	(390)	(35,325)	-706%	(4,614)	N/M
Total Management Fees, Net	<u>386,415</u>	<u>381,148</u>	<u>240,037</u>	<u>5,267</u>	<u>1%</u>	<u>141,111</u>	<u>59%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	127,192	52,511	78,670	74,681	142%	(26,159)	-33%
Incentive Fees	220,736	192,375	67,928	28,361	15%	124,447	183%
<b>Unrealized</b>							
Carried Interest	108,078	162,045	24,610	(53,967)	-33%	137,435	558%
Incentive Fees	1,107	(38,234)	(29,360)	39,341	N/M	(8,874)	-30%
Total Performance Fees	<u>457,113</u>	<u>368,697</u>	<u>141,848</u>	<u>88,416</u>	<u>24%</u>	<u>226,849</u>	<u>160%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	4,098	15,611	11,299	(11,513)	-74%	4,312	38%
<b>Unrealized</b>							
Carried Interest	13,951	4,769	(708)	9,182	193%	5,477	N/M
Total Investment Income	<u>18,049</u>	<u>20,380</u>	<u>10,591</u>	<u>(2,331)</u>	<u>-11%</u>	<u>9,789</u>	<u>92%</u>
Interest and Dividend Revenue	18,146	9,330	3,369	8,816	94%	5,961	177%
Other	527	(1,174)	(853)	1,701	N/M	(321)	-38%
Total Revenues	<u>880,250</u>	<u>778,381</u>	<u>394,992</u>	<u>101,869</u>	<u>13%</u>	<u>383,389</u>	<u>97%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	186,514	182,077	128,588	4,437	2%	53,489	42%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	69,411	30,336	32,047	39,075	129%	(1,711)	-5%
Incentive Fees	111,244	103,902	47,850	7,342	7%	56,052	117%
<b>Unrealized</b>							
Carried Interest	57,147	97,562	19,033	(40,415)	-41%	78,529	413%
Incentive Fees	508	(45,262)	(24,099)	45,770	N/M	(21,163)	-88%
Total Compensation and Benefits	<u>424,824</u>	<u>368,615</u>	<u>203,419</u>	<u>56,209</u>	<u>15%</u>	<u>165,196</u>	<u>81%</u>
Other Operating Expenses	<u>96,940</u>	<u>84,488</u>	<u>49,955</u>	<u>12,452</u>	<u>15%</u>	<u>34,533</u>	<u>69%</u>
Total Expenses	<u>521,764</u>	<u>453,103</u>	<u>253,374</u>	<u>68,661</u>	<u>15%</u>	<u>199,729</u>	<u>79%</u>
Economic Income	<u>\$358,486</u>	<u>\$325,278</u>	<u>\$141,618</u>	<u>\$ 33,208</u>	<u>10%</u>	<u>\$183,660</u>	<u>130%</u>

N/M Not meaningful.

### Revenues

Revenues were \$880.3 million for the year ended December 31, 2013, an increase of \$101.9 million compared to \$778.4 million for the year ended December 31, 2012. This change was primarily attributable to increases of \$88.4 million in Performance Fees and \$5.3 million in Total Management Fees.

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Performance Fees were \$457.1 million for the year ended December 31, 2013, an increase of \$88.4 million compared to the prior year. This change was primarily attributable to higher returns in our hedge fund strategies funds and continued strong underlying company performance in the portfolios of our carry funds. The net returns of Blackstone's Credit segment funds were 18.2% for the hedge funds, 17.9% for the mezzanine funds and 24.3% for the rescue lending funds for the year ended December 31, 2013.

Total Management Fees were \$386.4 million for the year ended December 31, 2013, an increase of \$5.3 million compared to \$381.1 million for the year ended December 31, 2012. This change was primarily attributable to an increase of \$52.9 million in Base Management Fees due to the growth in Fee-Earning Assets Under Management and partially offset by an increase of \$35.3 million in Management Fee Offsets (primarily due to a \$29.6 million adjustment in connection with placement fees reimbursed to investors in certain drawdown funds from the second quarter of 2011 through the third quarter of 2013) and a decrease of \$12.3 million in Transaction and Other Fees.

Revenues were \$778.4 million for the year ended December 31, 2012, an increase of \$383.4 million compared to the year ended December 31, 2011. This change was primarily attributable to increases of \$226.8 million in Performance Fees and \$141.1 million in Total Management Fees.

Performance Fees were \$368.7 million for the year ended December 31, 2012, an increase of \$226.8 million compared to the prior year. This change was attributable to a higher rate of appreciation in our investment funds driven by favorable credit markets and strong underlying company performance in the portfolios of our carry funds. The net returns of Blackstone's Credit segment funds were 13.4% for the hedge funds, 26.2% for the mezzanine funds and 15.7% for the rescue lending funds for the year ended December 31, 2012.

Total Management Fees were \$381.1 million for the year ended December 31, 2012, an increase of \$141.1 million compared to the prior year. This change was primarily attributable to an increase of \$106.7 million in Base Management Fees due to the significant growth in our Fee-Earning Assets Under Management and an increase of \$39.0 million in Transaction and Other Fees primarily due to waiver and amendment fees earned by certain CLOs.

### *Expenses*

Expenses were \$521.8 million for the year ended December 31, 2013, an increase of \$68.7 million compared to \$453.1 million for the year ended December 31, 2012. The increase in expenses was primarily attributable to increases of \$51.8 million in Performance Fee Compensation due to the increase in Performance Fees Revenue and \$12.5 million in Other Operating Expenses primarily due to an increase in interest expense allocated to the segment, partially offset by a reduction in fund start-up costs.

Expenses were \$453.1 million for the year ended December 31, 2012, an increase of \$199.7 million, or 79%, compared to the year ended December 31, 2011. The increase in expenses was attributed to increases of \$111.7 million in Performance Fee Compensation due to greater Total Performance Fees, \$53.5 million in Compensation due to greater Total Management Fees and \$34.5 million in Other Operating Expenses primarily due to greater start up costs and professional fees related to launching new products.

### *Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the return information of the segment's Flagship Hedge Funds:

Fund	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2013							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Flagship Hedge Funds (b)	24%	18%	17%	12%	21%	16%	13%	10%

### The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- The Flagship Hedge Funds' returns represent the weighted-average return for U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

The following table presents the internal rates of return of our significant Credit drawdown funds:

Fund (a)	Year Ended December 31,						December 31, 2013	
	2013		2012		2011		Inception to Date	
							Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Funds (b)	26%	18%	37%	26%	28%	22%	26%	19%
Rescue Lending Funds (c)	33%	24%	21%	16%	4%	2%	24%	18%

### The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- The Mezzanine Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds, as applicable, for the significant mezzanine funds. The inception to date return is from July 16, 2007, which is before Blackstone's acquisition of GSO in March 2008.
- The Rescue Lending Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of December 31, 2013, the significant Credit drawdown funds were above their respective Carried Interest thresholds.

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### Financial Advisory

The following table presents the results of operations for our Financial Advisory segment:

	Year Ended December 31,			2013 vs. 2012		2012 vs. 2011	
	2013	2012	2011	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
Advisory Fees	\$410,514	\$357,417	\$382,240	\$53,097	15%	\$(24,823)	-6%
Transaction and Other Fees, Net	1,105	295	321	810	275%	(26)	-8%
Total Advisory and Transaction Fees	<u>411,619</u>	<u>357,712</u>	<u>382,561</u>	<u>53,907</u>	<u>15%</u>	<u>(24,849)</u>	<u>-6%</u>
<b>Investment Income (Loss)</b>							
Realized	(1,625)	1,392	594	(3,017)	N/M	798	134%
Unrealized	739	1,348	304	(609)	-45%	1,044	343%
Total Investment Income (Loss)	<u>(886)</u>	<u>2,740</u>	<u>898</u>	<u>(3,626)</u>	<u>N/M</u>	<u>1,842</u>	<u>205%</u>
Interest and Dividend Revenue	8,020	7,157	6,799	863	12%	358	5%
Other	1,450	(804)	(383)	2,254	N/M	(421)	-110%
Total Revenues	<u>420,203</u>	<u>366,805</u>	<u>389,875</u>	<u>53,398</u>	<u>15%</u>	<u>(23,070)</u>	<u>-6%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	262,314	235,137	248,695	27,177	12%	(13,558)	-5%
Other Operating Expenses	82,205	84,589	81,538	(2,384)	-3%	3,051	4%
Total Expenses	<u>344,519</u>	<u>319,726</u>	<u>330,233</u>	<u>24,793</u>	<u>8%</u>	<u>(10,507)</u>	<u>-3%</u>
Economic Income	<u>\$ 75,684</u>	<u>\$ 47,079</u>	<u>\$ 59,642</u>	<u>\$28,605</u>	<u>61%</u>	<u>\$(12,563)</u>	<u>-21%</u>

N/M Not meaningful.

### Revenues

Revenues were \$420.2 million for the year ended December 31, 2013, an increase of \$53.4 million, or 15%, compared to \$366.8 million for the year ended December 31, 2012. The increase in revenues was driven primarily by increases in Restructuring and Reorganization, capital markets and the fund placement business, partially offset by a decrease in Blackstone Advisory Partners' ("BAP") financial and strategic advisory business. The increase in Restructuring and Reorganization was primarily driven by an increase in the number and size of transactions compared to the prior year. The capital markets business was formed in late 2012 and during the year ended December 31, 2013 acted as underwriter or arranger for 26 deals. The increase in fees earned by the fund placement business was due primarily to an increase in the number of transactions that closed during the period. BAP experienced a decrease in revenues related to the overall decline in the mergers and acquisitions market, lower fees on closed transactions and timing of some deals.

Revenues were \$366.8 million for the year ended December 31, 2012, a decrease of \$23.1 million, or 6%, compared to \$389.9 million for the year ended December 31, 2011. The decrease in revenues was driven primarily by decreases in the fund placement business and in BAP's business, partially offset by an increase in Restructuring and Reorganization. The decrease in fees earned by the fund placement business was due to decreases in the fundraising of capital from institutional investors for alternative investment products compared to the prior year. The decrease in BAP's business was due to a small decline in the number and size of transactions completed relative to the prior year. The increase in Restructuring and Reorganization was driven primarily by an increase in the size and number of transactions that closed in 2012 compared to the prior year.

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### *Expenses*

Expenses were \$344.5 million for the year ended December 31, 2013, an increase of \$24.8 million, or 8%, compared to \$319.7 million for the year ended December 31, 2012. Compensation increased \$27.2 million compared to \$235.1 million for the year ended December 31, 2012, principally due to an overall increase in total fee revenue across the segment. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses decreased \$2.4 million from the year ended December 31, 2012.

Expenses were \$319.7 million for the year ended December 31, 2012, a decrease of \$10.5 million, or 3%, compared to \$330.2 million for the year ended December 31, 2011. Compensation and Benefits decreased \$13.6 million compared to the year ended December 31, 2011, principally due to decreases in compensation expense in our BAP and fund placement businesses, partially offset by an increase in such costs in Restructuring and Reorganization. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses increased \$3.1 million over the year ended December 31, 2011, principally due to increases in consulting fees related to various non-recurring deals and other expenses allocated to the segment.

## **Liquidity and Capital Resources**

### *General*

Blackstone's business model derives revenue primarily from third party assets under management and from advisory businesses. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, or pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$29.7 billion as of December 31, 2013, up slightly from December 31, 2012. Total liabilities were \$15.3 billion as of December 31, 2013, a decrease of \$2.4 billion from December 31, 2012. The decrease in total liabilities was primarily due to a decrease in Loans Payable of \$2.6 billion resulting from the deconsolidation of certain CLO vehicles and loan repayments.

For the year ended December 31, 2013, we had Total Fee Related Revenues of \$2.3 billion and related expenses of \$1.6 billion, generating Fee Related Earnings of \$745.5 million and Distributable Earnings of \$1.9 billion.

### *Sources of Liquidity*

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010 and 2012 issuances of senior notes. As of December 31, 2013, Blackstone had \$832.0 million in cash, \$1.2 billion invested

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in Blackstone's Treasury Cash Management Strategies, \$114.3 million invested in liquid Blackstone Funds, \$2.5 billion invested in illiquid Blackstone Funds and \$201.5 million invested in other investments, against \$1.6 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

In addition to the cash we received in connection with our IPO, debt offerings and our borrowing facilities, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.



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The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

(Dollars in Thousands)	2013	2012	2011	
▶ Base Management Fees <sup>(a)</sup>	\$ 1,740,807	\$ 1,591,403	\$ 1,281,185	Fee Earnings
▶ Advisory Fees <sup>(a)</sup>	410,514	357,417	382,240	
▶ Transaction and Other Fees, Net <sup>(a)</sup>	206,977	227,119	247,513	
▶ Management Fee Offsets <sup>(a)</sup>	(72,220)	(40,953)	(33,393)	
▶ Interest Income and Other Revenue <sup>(b)</sup>	61,670	77,548	50,859	
▶ Compensation <sup>(a)</sup>	(1,115,640)	(1,030,776)	(960,569)	
▶ Other Operating Expenses <sup>(a)</sup>	(486,639)	(481,445)	(421,342)	
<b>Fee Related Earnings</b>	<b>\$ 745,469</b>	<b>\$ 700,313</b>	<b>\$ 546,493</b>	Distributable Earnings
▶ Net Realized Incentive Fees <sup>(b)</sup>	273,418	161,422	33,117	
▶ Net Realized Carried Interest <sup>(b)</sup>	686,757	230,989	95,292	
▶ Net Realized Investment Income <sup>(b)</sup>	183,665	73,526	96,518	
▶ Taxes and Related Payables <sup>(c)</sup>	(156,734)	(132,325)	(74,696)	
▶ Equity-Based Compensation <sup>(d)</sup>	130,124	90,040	84,626	
<b>Distributable Earnings</b>	<b>\$ 1,862,699</b>	<b>\$ 1,123,965</b>	<b>\$ 781,350</b>	Economic Net Income
▶ Net Unrealized Incentive Fees <sup>(b)</sup>	(8,277)	15,217	(4,169)	
▶ Net Unrealized Carried Interest <sup>(b)</sup>	1,191,293	672,591	733,574	
▶ Net Unrealized Investment Income <sup>(b)</sup>	523,714	186,949	84,146	
▶ Add Back: Related Payables <sup>(e)</sup>	74,570	86,617	28,933	
▶ Less: Equity-Based Compensation <sup>(d)</sup>	(130,124)	(90,040)	(84,626)	
<b>Economic Net Income</b>	<b>\$ 3,513,875</b>	<b>\$ 1,995,299</b>	<b>\$ 1,539,208</b>	

- (a) Represents the total segment amounts of the respective captions. See Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Represents the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

(Dollars in Thousands)	2013	2012	2011
Interest Income and Dividend Revenue <sup>(a)</sup>	\$ 70,936	\$ 46,630	\$ 38,844
Other Revenue <sup>(a)</sup>	10,308	5,149	7,415
Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(b)</sup>	(19,574)	25,769	4,600
<b>Interest Income and Other Revenue</b>	<b>\$ 61,670</b>	<b>\$ 77,548</b>	<b>\$ 50,859</b>
Realized Incentive Fees <sup>(a)</sup>	474,333	301,464	89,029
Less: Realized Incentive Fee Compensation <sup>(a)</sup>	(200,915)	(140,042)	(55,912)
<b>Net Realized Incentive Fees</b>	<b>\$ 273,418</b>	<b>\$ 161,422</b>	<b>\$ 33,117</b>
Realized Carried Interest <sup>(a)</sup>	943,958	327,422	138,907
Less: Realized Carried Interest Compensation <sup>(a)</sup>	(257,201)	(96,433)	(43,615)
<b>Net Realized Carried Interest</b>	<b>\$ 686,757</b>	<b>\$ 230,989</b>	<b>\$ 95,292</b>
Realized Investment Income <sup>(a)</sup>	170,471	95,398	102,575
Adjustment Related to Realized Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(c)</sup>	13,194	(21,872)	(6,057)
<b>Net Realized Investment Income</b>	<b>\$ 183,665</b>	<b>\$ 73,526</b>	<b>\$ 96,518</b>
<b>Equity-Based Compensation<sup>(d)</sup></b>	<b>\$ 130,124</b>	<b>\$ 90,040</b>	<b>\$ 84,626</b>
Unrealized Incentive Fees <sup>(a)</sup>	(19,928)	(29,311)	(24,928)
Less: Unrealized Incentive Fee Compensation <sup>(a)</sup>	11,651	44,528	20,759
<b>Net Unrealized Incentive Fees</b>	<b>\$ (8,277)</b>	<b>\$ 15,217</b>	<b>\$ (4,169)</b>
Unrealized Carried Interest <sup>(a)</sup>	2,158,010	994,190	971,518
Less: Unrealized Carried Interest Compensation <sup>(a)</sup>	(966,717)	(321,599)	(237,944)
<b>Net Unrealized Carried Interest</b>	<b>\$ 1,191,293</b>	<b>\$ 672,591</b>	<b>\$ 733,574</b>
Unrealized Investment Income <sup>(a)</sup>	517,334	190,846	82,689
Less: Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(b)</sup>	19,574	(25,769)	(4,600)
Less: Adjustment Related to Realized Investment Income (Loss) - Blackstone's Treasury Cash Management Strategies <sup>(c)</sup>	(13,194)	21,872	6,057
<b>Net Unrealized Investment Income</b>	<b>\$ 523,714</b>	<b>\$ 186,949</b>	<b>\$ 84,146</b>
<b>Related Payables<sup>(e)</sup></b>	<b>\$ 74,570</b>	<b>\$ 86,617</b>	<b>\$ 28,933</b>

(a) Represents the total segment amounts of the respective captions. See Note 21. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.

(b) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.

(c) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

(d) Represents equity-based award expense included in Economic Income.

(e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

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The following table is a reconciliation of Net Income (Loss) Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

(Dollars in Thousands)	2013	2012	2011
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ 1,171,202</b>	<b>\$ 218,598</b>	<b>\$ (168,303)</b>
Net Income (Loss) Attributable to Non-Controlling Interests			
in Blackstone Holdings	1,339,845	407,727	(83,234)
Net Income Attributable to Non-Controlling Interests in			
Consolidated Entities	198,557	99,959	7,953
Net Income (Loss) Attributable to Redeemable			
Non-Controlling Interests in Consolidated Entities	183,315	103,598	(24,869)
<b>Net Income (Loss)</b>	<b>\$ 2,892,919</b>	<b>\$ 829,882</b>	<b>\$ (268,453)</b>
Provision for Taxes	255,642	185,023	345,711
<b>Income Before Provision for Taxes</b>	<b>\$ 3,148,561</b>	<b>\$ 1,014,905</b>	<b>\$ 77,258</b>
IPO and Acquisition-Related Charges <sup>(a)</sup>	722,707	1,079,511	1,269,932
Amortization of Intangibles <sup>(b)</sup>	106,643	150,148	220,865
(Income) Loss Associated with Non-Controlling Interests in			
(Income) Loss of Consolidated Entities <sup>(c)</sup>	(381,872)	(203,557)	16,916
<b>Economic Income</b>	<b>\$ 3,596,039</b>	<b>\$ 2,041,007</b>	<b>\$ 1,584,971</b>
Taxes <sup>(d)</sup>	(82,164)	(45,708)	(45,763)
<b>Economic Net Income</b>	<b>\$ 3,513,875</b>	<b>\$ 1,995,299</b>	<b>\$ 1,539,208</b>
Taxes <sup>(d)</sup>	82,164	45,708	45,763
Performance Fee Adjustment <sup>(e)</sup>	(3,556,373)	(1,593,765)	(1,174,526)
Investment Income (Loss) Adjustment <sup>(f)</sup>	(687,805)	(286,244)	(185,264)
Investment Income - Blackstone's Treasury Cash			
Management Strategies <sup>(g)</sup>	(19,574)	25,769	4,600
Performance Fee Compensation and Benefits Adjustment <sup>(h)</sup>	1,413,182	513,546	316,712
<b>Fee Related Earnings</b>	<b>\$ 745,469</b>	<b>\$ 700,313</b>	<b>\$ 546,493</b>
Realized Performance Fees <sup>(i)</sup>	960,175	392,411	128,409
Realized Investment Income <sup>(j)</sup>	170,471	95,398	102,575
Adjustment Related to Realized Investment Income (Loss) -			
Blackstone's Treasury Cash Management Strategies <sup>(k)</sup>	13,194	(21,872)	(6,057)
Taxes and Related Payables Including Payable Under Tax			
Receivable Agreement <sup>(l)</sup>	(156,734)	(132,325)	(74,696)
Equity-Based Compensation <sup>(m)</sup>	130,124	90,040	84,626
<b>Distributable Earnings</b>	<b>\$ 1,862,699</b>	<b>\$ 1,123,965</b>	<b>\$ 781,350</b>
Interest Expense	103,904	69,152	53,201
Taxes and Related Payables Including Payable Under Tax			
Receivable Agreement <sup>(l)</sup>	156,734	132,325	74,696
Depreciation and Amortization	35,441	42,235	32,764
<b>Adjusted EBITDA</b>	<b>\$ 2,158,778</b>	<b>\$ 1,367,677</b>	<b>\$ 942,011</b>

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- (a) The adjustment adds back to Income Before Provision for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income Before Provision for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income Before Provision for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision calculated on Income Before Provision for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss) – Realized.
- (k) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).
- (l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (m) Represents equity-based award expense included in Economic Income.

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### Liquidity Needs

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2013 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VI	\$ 719,718	\$ 544,197	\$ 250,000	\$ 185,791
BCP V	629,356	70,500	—	—
BEP	50,000	39,976	—	—
Tactical Opportunities	96,931	71,177	21,420	13,070
Strategic Partners	16,110	15,035	—	—
Other (b)	213,810	16,666	—	—
<b>Real Estate Funds</b>				
BREP VII	300,000	124,544	100,000	35,301
BREP VI	750,000	44,097	150,000	14,699
BREP Europe III	100,000	19,300	35,000	7,538
BREP Europe IV	100,000	88,626	33,333	29,542
BREP Asia	50,000	40,817	16,667	13,973
BREDS II	50,000	27,914	16,667	9,305
CT Opportunity Partners I	25,000	18,537	—	—
Other (b)	138,314	9,994	—	—
<b>Hedge Fund Solutions</b>				
Strategic Alliance II	50,000	16,936	—	—
Strategic Alliance	50,000	2,033	—	—
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	98,638	109,947	90,375
GSO Capital Solutions II	125,000	125,000	94,637	94,637
Blackstone/GSO Capital Solutions	50,000	9,684	27,666	5,358
Blackstone Credit Liquidity Partners	32,244	1,612	—	—
BMezz II	17,692	3,085	—	—
Other (b)	53,046	34,005	2,996	1,697
<b>Other</b>				
Treasury	175,862	73,372	—	—
<b>Total</b>	<b>\$3,913,083</b>	<b>\$1,495,745</b>	<b>\$ 858,333</b>	<b>\$ 501,286</b>

- (a) For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective

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funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

(b) Represents capital commitments to a number of other funds in each respective segment.

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent with a maturity date of July 13, 2017. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. (These issuances of Senior Notes are collectively referred to as the “Notes”.) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors’ ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2013, no units were repurchased. As of December 31, 2013, the amount remaining under this program available for repurchases was \$335.8 million.

### *Distributions*

Distributable Earnings, which is derived from Blackstone’s segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue,

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(d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

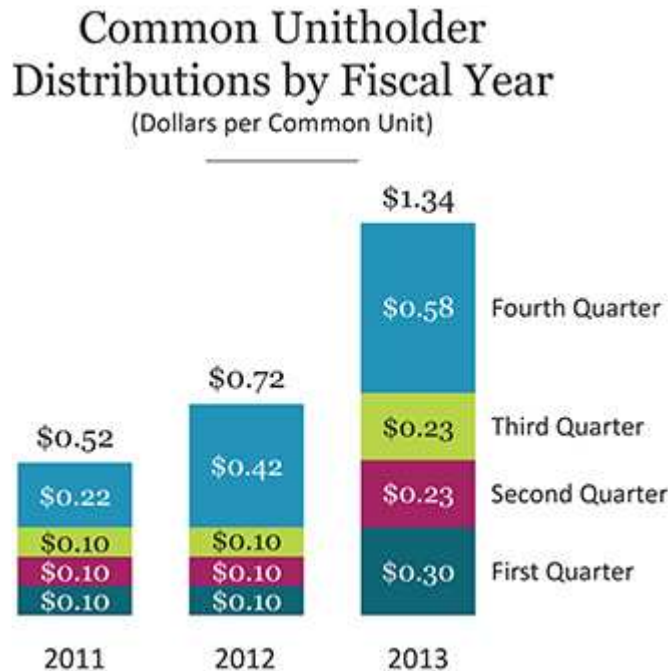
Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

The following chart shows fiscal quarterly and annual per common unitholder distributions for 2011, 2012 and 2013. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.



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With respect to fiscal year 2013, we have paid to common unitholders distributions of \$0.30, \$0.23, \$0.23 and \$0.58 per common unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.34 per common unit. With respect to fiscal years 2012 and 2011, we paid aggregate common unitholder distributions of \$0.72 per common unit and \$0.52 per common unit, respectively.

With respect to fiscal year 2013, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships distributions of \$0.31, \$0.28, \$0.26 and \$0.67 per Blackstone Holdings Partnership Unit in respect of the first, second, third and fourth quarters, respectively, aggregating \$1.52 per Blackstone Holdings Partnership Unit. With respect to fiscal years 2012 and 2011, we paid aggregate distributions of \$0.88 per Blackstone Holdings Partnership Unit and \$0.58 per Blackstone Holdings Partnership Unit, respectively.

### Leverage

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles. The following table presents information regarding these financial instruments:

	Reverse Repurchase Agreements	Repurchase Agreements (Dollars in Millions)	Securities Sold, Not Yet Purchased
Balance, December 31, 2013	\$ 149.0	\$ 316.3	\$ 76.2
Balance, December 31, 2012	\$ 248.0	\$ 142.3	\$ 226.4
Year Ended December 31, 2013			
Average Daily Balance	\$ 163.2	\$ 105.3	\$ 136.1
Maximum Daily Balance	\$ 290.9	\$ 322.8	\$ 276.6

Our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not historically utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

### Critical Accounting Policies

We prepare our Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may



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be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data” of this filing.)

### *Principles of Consolidation*

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings Partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance, and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE, and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (“Investment Company Guide”), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance as discussed in Note 2. “Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data”, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the

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respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to "Part I. Item 1. Business—Incentive Arrangements / Fee Structure" for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net*—Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

- 0.30% to 1.75% of committed capital or invested capital during the investment period,
- 0.50% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital or net asset value for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

- 1.25% to 2.00% of net asset value.

On credit-focused separately managed accounts:

- 0.30% to 1.35% of net asset value.

On funds of hedge funds and separately managed accounts invested in hedge funds:

- 0.50% to 1.25% of net asset value.

On CLO vehicles:

- 0.40% to 1.25% of total assets.

On credit-focused registered and non-registered investment companies:

- 0.50% to 1.50% of fund assets or net asset value.

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The investment adviser of BXMT receives annual management fees based upon 1.5% of BXMT's net proceeds received from equity offerings and accumulated "core earnings" (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ("management fee reductions") by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* — Performance Fees earned on the performance of Blackstone's hedge fund structures ("Incentive Fees") are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds ("Carry Funds"), performance fees ("Carried Interest") are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

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Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Carry Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue*—Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue*—Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits—Compensation*—Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits—Performance Fee*—Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

### **Fair Value of Financial Instruments**

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between

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market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

- Level I—Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III—Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

### *Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value

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of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques—Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Used in Fair Value Hedging Strategies are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

### *Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments* —The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* —The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (“cap rates”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Funds of Hedge Funds* —The investments of consolidated Blackstone Funds in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

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Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.

*Credit-Focused Investments* —The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* —Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

### *Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

### *Investments, at Fair Value*

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

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For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force ("EITF"). Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.

### Intangibles and Goodwill

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.



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Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013.

The carrying value of goodwill was \$1.8 billion as of December 31, 2013 and \$1.7 billion as of December 31, 2012. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. As of December 31, 2013 and 2012, we evaluated that it was not more likely than not that the fair value of the Partnership's operating segments was less than their respective carrying values.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. Blackstone performed a qualitative assessment as of December 31, 2013 and 2012 to determine if it was more likely than not that the fair value of its operating segments was less than their respective carrying values.

### Off-Balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing as follows:

- Note 6. "Derivative Financial Instruments",
- Note 9. "Variable Interest Entities", and
- Note 18. "Commitments and Contingencies—Commitments, Operating Leases;—Commitments, Investment Commitments; and—Contingencies, Guarantees".

### Recent Accounting Developments

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.

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### Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of December 31, 2013 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

<u>Contractual Obligations</u>	<u>2014</u>	<u>2015-2016</u>	<u>2017-2018</u> (Dollars in Thousands)	<u>Thereafter</u>	<u>Total</u>
Operating Lease Obligations (a)	\$ 71,286	\$ 128,687	\$ 110,658	\$ 189,150	\$ 499,781
Purchase Obligations	14,910	7,230	132	—	22,272
Blackstone Issued Notes and Revolving Credit Facility (b)	—	—	—	1,635,000	1,635,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	96,890	193,762	193,762	523,634	1,008,048
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	8,066	5,009	—	9,826,621	9,839,696
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	107,492	214,620	214,524	277,015	813,651
Blackstone Funds Capital Commitments to Investee Funds (f)	54,617	—	—	—	54,617
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)	80,565	148,981	145,826	895,659	1,271,031
Unrecognized Tax Benefits, Including Interest and Penalties (h)	558	499	—	—	1,057
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	<u>1,495,745</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,495,745</u>
Consolidated Contractual Obligations	<u>1,930,129</u>	<u>698,788</u>	<u>664,902</u>	<u>13,347,079</u>	<u>16,640,898</u>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(8,066)	(5,009)	—	(9,826,621)	(9,839,696)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(107,492)	(214,620)	(214,524)	(277,015)	(813,651)
Blackstone Funds Capital Commitments to Investee Funds (f)	<u>(54,617)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(54,617)</u>
Blackstone Operating Entities Contractual Obligations	<u>\$1,759,954</u>	<u>\$ 479,159</u>	<u>\$ 450,378</u>	<u>\$ 3,243,443</u>	<u>\$ 5,932,934</u>

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2013, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of December 31, 2013, at spreads to market rates pursuant to the financing agreements, and range from

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0.30% to 10.91%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 17. "Related Party Transactions" (see "—Item 8. Financial Statements and Supplementary Data") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$0.3 million and interest and penalties of \$0.7 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$18.5 million and interest of \$5.0 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

### *Guarantees*

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 18. "Commitments and Contingencies—Contingencies—Guarantees" in the "Notes to Consolidated Financial Statements" in "—Item 8. Financial Statements and Supplementary Data" of this filing.

### *Indemnifications*

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2013.

### *Clawback Obligations*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2018. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

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During the year ended December 31, 2013, the Blackstone general partners paid a cash clawback obligation of \$89.7 million relating to Blackstone Communications Partners (“BCOM”) of which \$70.6 million was paid by Blackstone Holdings and \$19.1 million by current and former Blackstone personnel.

As of December 31, 2013, the total clawback obligations were \$4.3 million, of which \$2.7 million related to Blackstone Holdings and \$1.6 million related to current and former Blackstone personnel. (See Note 17. “Related Party Transactions” and Note 18. “Commitments and Contingencies” in the “Notes to Consolidated Financial Statements” in “—Item 8. Financial Statements and Supplementary Data” of this filing.)

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

#### Effect on Fund Management Fees

Our management fees are based on (a) third parties’ capital commitments to a Blackstone Fund, (b) third parties’ capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund’s life cycle. For the years ended December 31, 2013 and December 31, 2012, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Year Ended December 31,	
	2013	2012
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	31%	27%

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### Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2013 and December 31, 2012, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2013			2012		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 72,894	\$ 851,121	\$300,786	\$ 51,672	\$ 1,175,115	\$256,479

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	December 31, 2013	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 42,775,480	62%
Real Estate	\$ 60,326,590	66%
Hedge Fund Solutions	\$ 54,292,940	74%
Credit	\$ 34,155,174	43%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I. Item 1A. Risk Factors" above. Also see "—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Investments, at Fair Value.") We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

### Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies.

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Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2013 and December 31, 2012, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	December 31,					
	2013			2012		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 23,300	\$ 172,236	\$ 39,219	\$ 13,175	\$ 123,435	\$ 34,448

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

## Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2013 and December 31, 2012, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	December 31,	
	2013	2012
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 131	\$ 301

Blackstone's Treasury Cash Management Strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the "Treasury Liquidity Portfolio"). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	December 31,			
	2013		2012	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
One Percentage Point Increase in Interest Rates	\$ 8,251(a)	\$ 8,374	\$ 22,107(a)	\$ 5,425

(a) As of December 31, 2013 and 2012, this represents 0.4% and 1.0% of the Treasury Liquidity Portfolio, respectively.

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### Credit Risk

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$22,865	\$20,060

(a) As of December 31, 2013 and 2012, this represents 1.1% and 0.9% of the Treasury Liquidity Portfolio, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Independent Registered Public Accounting Firm**

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2013. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our

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opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission .

/s/ *DELOITTE & TOUCHE LLP*

New York, New York  
February 28, 2014

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash and Cash Equivalents	\$ 831,998	\$ 709,502
Cash Held by Blackstone Funds and Other	1,045,882	1,404,411
Investments (including assets pledged of \$316,564 and \$141,931 at December 31, 2013 and December 31, 2012, respectively)	21,729,523	20,847,270
Accounts Receivable	888,356	638,164
Reverse Repurchase Agreements	148,984	248,018
Due from Affiliates	1,192,044	1,120,067
Intangible Assets, Net	560,748	598,535
Goodwill	1,787,392	1,703,602
Other Assets	284,472	376,372
Deferred Tax Assets	1,209,207	1,285,611
<b>Total Assets</b>	<b><u>\$29,678,606</u></b>	<b><u>\$28,931,552</u></b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$10,466,504	\$13,051,404
Due to Affiliates	1,436,859	2,002,644
Accrued Compensation and Benefits	2,132,939	1,254,978
Securities Sold, Not Yet Purchased	76,195	226,425
Repurchase Agreements	316,352	142,266
Accounts Payable, Accrued Expenses and Other Liabilities	872,086	1,038,888
<b>Total Liabilities</b>	<b><u>15,300,935</u></b>	<b><u>17,716,605</u></b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b><u>1,950,442</u></b>	<b><u>1,556,185</u></b>
<b>Partners' Capital</b>		
Partners' Capital (common units: 572,592,279 issued and outstanding as of December 31, 2013; 556,354,387 issued and outstanding as of December 31, 2012)	6,002,592	4,955,649
Appropriated Partners' Capital	300,708	509,028
Accumulated Other Comprehensive Income	3,466	2,170
Non-Controlling Interests in Consolidated Entities	2,464,047	1,443,559
Non-Controlling Interests in Blackstone Holdings	3,656,416	2,748,356
<b>Total Partners' Capital</b>	<b><u>12,427,229</u></b>	<b><u>9,658,762</u></b>
<b>Total Liabilities and Partners' Capital</b>	<b><u>\$29,678,606</u></b>	<b><u>\$28,931,552</u></b>

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See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands)**

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The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 618,881	\$ 1,163,915
Investments	9,700,804	12,320,611
Accounts Receivable	231,052	187,343
Due from Affiliates	27,022	27,034
Other Assets	29,755	35,447
<b>Total Assets</b>	<u>\$10,607,514</u>	<u>\$13,734,350</u>
<b>Liabilities</b>		
Loans Payable	\$ 8,802,155	\$11,375,877
Due to Affiliates	143,444	253,546
Accounts Payable, Accrued Expenses and Other	284,818	518,656
<b>Total Liabilities</b>	<u>\$ 9,230,417</u>	<u>\$12,148,079</u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Operations**  
(Dollars in Thousands, Except Unit and Per Unit Data)

	Year Ended December 31,		
	2013	2012	2011
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,193,985	\$ 2,030,693	\$ 1,811,750
Performance Fees			
Realized			
Carried Interest	943,958	327,422	138,907
Incentive Fees	464,838	301,801	90,099
Unrealized			
Carried Interest	2,158,010	994,190	971,518
Incentive Fees	(22,749)	(30,361)	(17,864)
Total Performance Fees	<u>3,544,057</u>	<u>1,593,052</u>	<u>1,182,660</u>
Investment Income			
Realized	188,644	93,963	87,542
Unrealized	611,664	256,231	125,781
Total Investment Income	<u>800,308</u>	<u>350,194</u>	<u>213,323</u>
Interest and Dividend Revenue	64,511	40,354	37,427
Other	10,307	5,148	7,416
<b>Total Revenues</b>	<u>6,613,168</u>	<u>4,019,441</u>	<u>3,252,576</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	1,844,485	2,091,698	2,421,712
Performance Fee Compensation			
Realized			
Carried Interest	257,201	96,433	43,615
Incentive Fees	200,915	140,042	55,912
Unrealized			
Carried Interest	966,717	321,599	237,945
Incentive Fees	(11,651)	(44,528)	(20,759)
Total Compensation and Benefits	<u>3,257,667</u>	<u>2,605,244</u>	<u>2,738,425</u>
General, Administrative and Other	474,442	548,738	566,313
Interest Expense	107,973	72,870	57,824
Fund Expenses	26,658	33,829	25,507
<b>Total Expenses</b>	<u>3,866,740</u>	<u>3,260,681</u>	<u>3,388,069</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	20,469	—	197,816
Net Gains from Fund Investment Activities	381,664	256,145	14,935
<b>Total Other Income</b>	<u>402,133</u>	<u>256,145</u>	<u>212,751</u>
<b>Income Before Provision for Taxes</b>	<u>3,148,561</u>	<u>1,014,905</u>	<u>77,258</u>
<b>Provision for Taxes</b>	<u>255,642</u>	<u>185,023</u>	<u>345,711</u>
<b>Net Income (Loss)</b>	<u>2,892,919</u>	<u>829,882</u>	<u>(268,453)</u>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>183,315</u>	<u>103,598</u>	<u>(24,869)</u>
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	<u>198,557</u>	<u>99,959</u>	<u>7,953</u>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<u>1,339,845</u>	<u>407,727</u>	<u>(83,234)</u>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,171,202</u>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>
<b>Net Income (Loss) Per Common Unit</b>			
Common Units, Basic	<u>\$ 2.00</u>	<u>\$ 0.41</u>	<u>\$ (0.35)</u>
Common Units, Diluted	<u>\$ 1.98</u>	<u>\$ 0.41</u>	<u>\$ (0.35)</u>
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	<u>587,018,828</u>	<u>533,703,606</u>	<u>475,582,718</u>
Common Units, Diluted	<u>590,546,640</u>	<u>538,669,070</u>	<u>475,582,718</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	<u>\$ 253,877</u>	<u>\$ 254,729</u>	<u>\$ 317,675</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in Thousands)**

	Year Ended December 31,		
	2013	2012	2011
Net Income (Loss)	\$2,892,919	\$829,882	\$(268,453)
Other Comprehensive Income, Net of Tax—Currency Translation Adjustment	9,896	1,859	7,056
Comprehensive Income (Loss)	2,902,815	831,741	(261,397)
Less:			
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	183,315	103,598	(24,869)
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	207,157	101,606	17,353
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	1,339,845	407,727	(83,234)
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	<u>\$1,172,498</u>	<u>\$218,810</u>	<u>\$(170,647)</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appro- priated Partners' Capital	Accumulated Other Compre- hensive Income				
<b>Balance at December 31, 2010</b>	416,092,022	\$3,888,211	\$ 470,583	\$ 4,302	\$ 812,354	\$ 2,418,517	\$7,593,967	\$ 659,390
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	97,660	—	113	—	97,773	—
Net Income (Loss)	—	(168,303)	—	—	7,953	(83,234)	(243,584)	(24,869)
Allocation of Losses of Consolidated CLO Entities	—	—	(190,780)	—	190,780	—	—	—
Currency Translation Adjustment	—	—	—	(2,344)	9,400	—	7,056	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	9,400	—	(9,400)	—	—	—
Capital Contributions	—	—	—	—	279,293	—	279,293	909,425
Capital Distributions	—	(294,169)	—	—	(263,837)	(408,663)	(966,669)	(344,450)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	2,614	(2,614)	—	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(466)	—	—	—	(1,652)	(2,118)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	58,391	—	—	—	—	58,391	—
Equity-Based Compensation	—	565,438	—	—	—	761,464	1,326,902	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	1	—	—	—	1	(107,663)
Net Delivery of Vested Common Units	8,105,566	(34,590)	—	—	—	—	(34,590)	—
Repurchase of Common Units and Blackstone Holdings Partnership Units	—	—	—	—	—	(469)	(469)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(5,893)	—	—	—	5,893	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	62,055,376	228,722	—	—	—	(228,722)	—	—
Issuance of New Units	3,177,943	44,500	—	—	—	—	44,500	—
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833

continued ...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Compre- hensive Income				
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	233,386	—	155	—	233,541	—
Consolidation of Certain Funds	—	—	—	—	—	—	—	50,224
Net Income	—	218,598	—	—	99,959	407,727	726,284	103,598
Allocation of Losses of Consolidated CLO Entities	—	—	(112,869)	—	112,869	—	—	—
Currency Translation Adjustment	—	—	—	212	1,647	—	1,859	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	1,647	—	(1,647)	—	—	—
Capital Contributions	—	—	—	—	322,562	34	322,596	462,261
Capital Distributions	—	(271,890)	—	—	(116,672)	(342,640)	(731,202)	(151,713)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(4,584)	(17,392)	(21,976)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(63)	—	—	—	—	(63)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	57,356	—	—	—	—	57,356	—
Equity-Based Compensation	—	437,444	—	—	—	494,834	932,278	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	—	—	—	—	—	(18)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	8,748,146	(21,453)	—	—	—	(911)	(22,364)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,423)	—	—	—	2,423	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	58,175,334	256,239	—	—	—	(256,239)	—	—
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$9,658,762	\$ 1,556,185

continued ...

See notes to consolidated financial statements.



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.				Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income				
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Consolidation of Fund Entity	—	—	—	—	659,001	—	659,001	—
Net Income	—	1,171,202	—	—	198,557	1,339,845	2,709,604	183,315
Allocation of Losses of Consolidated CLO Entities	—	—	(186,183)	—	186,183	—	—	—
Currency Translation Adjustment	—	—	—	1,296	8,600	—	9,896	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	8,600	—	(8,600)	—	—	—
Capital Contributions	—	—	—	—	285,757	262	286,019	894,792
Capital Distributions	—	(679,082)	—	—	(306,605)	(790,397)	(1,776,084)	(555,943)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(2,403)	—	(2,403)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(43)	—	—	—	—	(43)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	80,580	—	—	—	—	80,580	—
Equity-Based Compensation	—	411,516	—	—	—	399,567	811,083	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(30,737)	—	(2)	—	(30,739)	(127,907)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	6,464,259	(20,366)	—	—	—	(481)	(20,847)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,519)	—	—	—	2,519	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	8,232,434	43,255	—	—	—	(43,255)	—	—
Issuance of New Units	1,541,199	42,400	—	—	—	—	42,400	—
<b>Balance at December 31, 2013</b>	<u>572,592,279</u>	<u>\$6,002,592</u>	<u>\$ 300,708</u>	<u>\$ 3,466</u>	<u>\$ 2,464,047</u>	<u>\$ 3,656,416</u>	<u>\$12,427,229</u>	<u>\$ 1,950,442</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2013	2012	2011
<b>Operating Activities</b>			
Net Income (Loss)	\$ 2,892,919	\$ 829,882	\$ (268,453)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities			
Blackstone Funds Related			
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(1,069,479)	(397,470)	59,973
Net Realized Gains on Investments	(1,792,106)	(710,755)	(540,353)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(506,546)	(181,481)	(116,183)
Unrealized Depreciation (Appreciation) on Hedge Activities	—	22,599	(1,283)
Non-Cash Performance Fees	(1,143,903)	(699,711)	(714,830)
Non-Cash Performance Fee Compensation	1,413,182	513,546	316,713
Equity-Based Compensation Expense	855,087	949,633	1,396,062
Excess Tax Benefits Related to Equity-Based Compensation	(5,769)	—	—
Amortization of Intangibles	95,671	139,174	207,591
Other Non-Cash Amounts Included in Net Income (Loss)	206,451	353,052	164,359
Cash Flows Due to Changes in Operating Assets and Liabilities			
Cash Held by Blackstone Funds and Other	371,641	(367,101)	545,637
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(173,726)	(48,284)	(110,607)
Accounts Receivable	(46,580)	(60,520)	116,714
Reverse Repurchase Agreements	99,034	(108,533)	41,940
Due from Affiliates	237,169	(73,485)	(31,403)
Other Assets	15,445	51,031	(19,233)
Accrued Compensation and Benefits	(454,724)	(119,862)	(273,281)
Securities Sold, Not Yet Purchased	(142,952)	88,474	22,407
Accounts Payable, Accrued Expenses and Other Liabilities	(316,082)	(408,256)	(203,419)
Repurchase Agreements	174,629	40,417	39,177
Due to Affiliates	(216,671)	(88,425)	(3,439)
Treasury Cash Management Strategies			
Investments Purchased	(4,368,096)	(3,414,291)	(3,198,632)
Cash Proceeds from Sale of Investments	4,643,886	2,729,689	3,486,836
Blackstone Funds Related			
Investments Purchased	(8,245,313)	(6,845,184)	(6,113,038)
Cash Proceeds from Sale or Pay Down of Investments	11,024,774	8,389,016	6,296,358
Net Cash Provided by Operating Activities	<u>3,547,941</u>	<u>583,155</u>	<u>1,099,613</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(25,637)	(37,020)	(36,484)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(146,117)	(188,306)	(23,744)
Changes in Restricted Cash	5,850	2,345	330
Net Cash Used in Investing Activities	<u>(165,904)</u>	<u>(222,981)</u>	<u>(59,898)</u>
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(844,011)	(261,582)	(608,287)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	1,114,457	773,714	1,183,952

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2013	2012	2011
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (43)	\$ (63)	\$ (466)
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(24,140)	(22,364)	(36,711)
Excess Tax Benefits Related to Equity-Based Compensation	5,769	—	—
Proceeds from Loans Payable	11,367	633,742	13,301
Repayment and Repurchase of Loans Payable	(16,777)	(33,168)	(27,424)
Distributions to Unitholders	(1,469,479)	(614,530)	(702,832)
<b>Blackstone Funds Related</b>			
Proceeds from Loans Payable	53,917	17,820	342,133
Repayment of Loans Payable	(2,090,674)	(898,980)	(1,037,181)
Net Cash Used in Financing Activities	<u>(3,259,614)</u>	<u>(405,411)</u>	<u>(873,515)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	73	(5)	(77)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	122,496	(45,242)	166,123
Cash and Cash Equivalents, Beginning of Period	709,502	754,744	588,621
Cash and Cash Equivalents, End of Period	<u>\$ 831,998</u>	<u>\$ 709,502</u>	<u>\$ 754,744</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	<u>\$ 125,361</u>	<u>\$ 80,159</u>	<u>\$ 81,407</u>
Payments for Income Taxes	<u>\$ 69,858</u>	<u>\$ 30,234</u>	<u>\$ 43,945</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	<u>\$ 63,273</u>	<u>\$ 6,803</u>	<u>\$ —</u>
Non-Cash Distributions to Non-Controlling Interest Holders	<u>\$ (18,537)</u>	<u>\$ (6,803)</u>	<u>\$ —</u>
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	<u>\$ (6,029)</u>	<u>\$ (5,409)</u>	<u>\$ (2,775)</u>
Net Assets Related to the Consolidation of CLO Vehicles	<u>\$ —</u>	<u>\$ 233,541</u>	<u>\$ 97,773</u>
Net Assets Related to the Consolidation of Certain Fund Entities	<u>\$ 659,001</u>	<u>\$ 50,224</u>	<u>\$ —</u>
In-kind Redemption of Capital	<u>\$ —</u>	<u>\$ (2,017)</u>	<u>\$ (52,467)</u>
In-kind Contribution of Capital	<u>\$ 2,323</u>	<u>\$ 2,017</u>	<u>\$ 8,705</u>
Notes Issuance Costs	<u>\$ —</u>	<u>\$ 4,788</u>	<u>\$ —</u>
Transfer of Interests to Non-Controlling Interest Holders	<u>\$ (2,403)</u>	<u>\$ (4,584)</u>	<u>\$ 2,614</u>
Change in The Blackstone Group L.P.'s Ownership Interest	<u>\$ (2,519)</u>	<u>\$ (2,423)</u>	<u>\$ (5,893)</u>
Net Settlement of Vested Common Units	<u>\$ 153,522</u>	<u>\$ 167,046</u>	<u>\$ 186,644</u>
Conversion of Blackstone Holdings Units to Common Units	<u>\$ 43,255</u>	<u>\$ 256,239</u>	<u>\$ 228,722</u>
Acquisition of Ownership Interests from Non-Controlling Interest Holders			
Deferred Tax Asset	<u>\$ (113,757)</u>	<u>\$(204,320)</u>	<u>\$ (300,471)</u>
Due to Affiliates	<u>\$ 33,177</u>	<u>\$ 146,964</u>	<u>\$ 242,080</u>
Partners' Capital	<u>\$ 80,580</u>	<u>\$ 57,356</u>	<u>\$ 58,391</u>
Issuance of New Units	<u>\$ 42,400</u>	<u>\$ —</u>	<u>\$ 44,500</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries (“Blackstone” or the “Partnership”), is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts (“REITs”), funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, collateralized debt obligation (“CDO”) vehicles, separately managed accounts and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. Blackstone’s business is organized into five segments: private equity, real estate, hedge fund solutions, credit and financial advisory.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone’s founders, Stephen A. Schwarzman (the “Founder”), and Blackstone’s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, “Blackstone Holdings”, “Blackstone Holdings Partnerships” or the “Holding Partnerships”). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the four Holding Partnerships may, four times each year, exchange their limited partnership interests (“Partnership Units”) for Blackstone common units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of the Partnership, its wholly owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Consolidated Statements of Cash Flows.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements

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

prudent and reasonable and that it has made all necessary adjustments (consisting of only normal recurring items) so that the consolidated financial statements are presented fairly. Actual results could differ from those estimates and such differences could be material.

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings Partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- (a) The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (“Investment Company Guide”), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

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governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

Blackstone's other disclosures regarding VIEs are discussed in Note 9. "Variable Interest Entities".

**Business Combinations**

The Partnership accounts for business combinations using the acquisition method of accounting. On the acquisition date, the Partnership recognizes identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date fair values. Transaction costs are expensed as incurred.

**Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

*Management and Advisory Fees, Net* —Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ("management fee reductions") by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

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Notes to Consolidated Financial Statements

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Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees*—Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds’ investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund’s life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership’s principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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*Interest and Dividend Revenue* —Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* —Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

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

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

- Level I—Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III—Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for



**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

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any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques—Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments*—The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key

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performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* —The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (“cap rates”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment’s fair value.

*Funds of Hedge Funds* —The investments of consolidated Blackstone Funds in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee’s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee’s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. “Net Asset Value as Fair Value”.

*Credit-Focused Investments* —The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* —Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone’s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

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*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these

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events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force ("EITF"). Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" to the Consolidated Financial Statements.

Security and loan transactions are recorded on a trade date basis.

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments approximates fair value.

**Cash and Cash Equivalents**

Cash and Cash Equivalents represents cash on hand, cash held in banks, money market funds and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

**Cash Held By Blackstone Funds and Other**

Cash Held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

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**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, receivables relating to unsettled sale transactions and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally ten to fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting

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date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

**Comprehensive Income**

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

**Redeemable Non-Controlling Interests in Consolidated Entities**

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

**Non-Controlling Interests in Blackstone Holdings**

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

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**Compensation and Benefits**

*Compensation and Benefits—Compensation* —Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits—Performance Fee* —Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone’s firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

**Other Income**

Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds’ investments.

Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

In 2013 and 2011, Other Income included the amount attributable to the Reversal of the Tax Receivable Agreement Liability. This is income attributable to a change in tax rate as discussed in Note 14. “Income Taxes”.

**Income Taxes**

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership’s share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

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Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative and Other expenses within the Consolidated Statements of Operations.

**Net Income (Loss) Per Common Unit**

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to The Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprised primarily of U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty’s rights and obligations.

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Consolidated Statements of Financial Condition.

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 12. “Offsetting of Assets and Liabilities”.

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to “cover” its short sale in the future by purchasing the security at



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prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (“fair value hedge”), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (“freestanding derivative”). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership’s evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair value of the derivative instrument is reflected within Other Assets in the Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty’s rights and obligations.

Blackstone’s other disclosures regarding derivative financial instruments are discussed in Note 6. “Derivative Financial Instruments”.

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Blackstone's disclosures regarding offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the consolidated financial statements when declared.

**Recent Accounting Developments**

In April 2011, the Financial Accounting Standards Board ("FASB") amended existing guidance for agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments removed from the assessment of effective control (a) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (b) the collateral maintenance implementation guidance related to that criterion. The guidance was effective for the first interim or annual period beginning on or after December 15, 2011. Blackstone enters into repurchase agreements that are currently accounted for as collateralized financing transactions. Adoption did not have a material impact on the Partnership's financial statements.

In May 2011, the FASB issued amended guidance on fair value measurements to achieve common fair value measurement and disclosure requirements under GAAP and International Financial Reporting Standards. The amended guidance specified that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments included requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements was provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarified that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity's holding (for example, a blockage factor) rather than as a characteristic of the asset or liability (for example, a control premium) are not permitted in a fair value measurement.

The guidance also required enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of

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financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amended disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

The amended guidance was effective for interim and annual periods beginning after December 15, 2011. As the impact of the guidance is primarily limited to enhanced disclosures, adoption did not have a material impact on the Partnership's financial statements.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provided an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity was required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In addition, an entity was required to present on the face of the financial statements reclassification adjustments for items that were reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income were presented. The guidance was effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and was to be applied on a retrospective basis. Adoption did not have a material impact on the Partnership's financial statements.

In December 2011, the FASB issued a deferral of the effective date for certain disclosures relating to comprehensive income, specifically with respect to the presentation of reclassifications of items out of accumulated other comprehensive income. The deferral was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance did not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments required an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

The guidance was effective prospectively for periods beginning after December 15, 2012. Adoption had no impact on the Partnership's financial statements.

In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it

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is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit's fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Blackstone adopted the guidance on October 1, 2012, the date of annual impairment testing. The amended guidance did not have a material impact on the Partnership's financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance was effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments were limited to disclosure only, adoption did not have a material impact on the Partnership's financial statements.

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarified that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (a) offset, or (b) subject to a master netting agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption is not expected to have a material impact on the Partnership's financial statements.

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In March 2013, the FASB issued guidance on a parent entity's accounting for cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a parent entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity, any related portion of the total cumulative translation adjustment should be released into net income if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, partial sale guidance applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. For an equity method investment that is not a foreign entity, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance shall be applied on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. Adoption is not expected to have a material impact on the Partnership's financial statements.

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption is not expected to have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption is not expected to have a material impact on the Partnership's financial statements.

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**3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS**

**Acquisition of Strategic Partners Fund Solutions**

On August 5, 2013, Blackstone completed its acquisition of Strategic Partners Fund Solutions, a secondary private fund of funds business, which resulted in an increase in Goodwill of \$83.8 million and an increase in Intangible Assets, primarily comprising contractual rights to earn future fee income, of \$57.9 million. Goodwill arising from the acquisition has been allocated to the Private Equity segment.

**Acquisition of Harbourmaster**

On January 5, 2012, Blackstone completed the acquisition of all of the outstanding share capital of Harbourmaster Capital (Holdings) Limited (“Harbourmaster”), an Island of Jersey entity, in accordance with the sale and purchase agreement entered into on October 6, 2011. The fair value of consideration transferred, comprised entirely of cash, was €181.4 million (\$232.0 million). Harbourmaster is a European secured bank loan manager based in Dublin, Ireland. Harbourmaster manages various credit products including CLO vehicles.

The following is a summary of the estimated fair values of assets acquired and liabilities assumed for the Harbourmaster acquisition:

Purchase Price—Cash	<u>\$232,044</u>
Fair Value of Assets Acquired and Liabilities Assumed	
Assets	
Cash	\$ 75,072
Investments in CLOs	9,305
Accounts Receivable	9,329
Other Assets	17,651
Intangible Assets	<u>142,221</u>
	253,578
Liabilities Assumed	
Accounts Payable, Accrued Expenses and Other Liabilities	<u>21,534</u>
Net Assets Acquired	<u>\$232,044</u>

Harbourmaster’s results from the date of acquisition have been included in the Credit segment.

The Partnership incurred \$2.1 million of acquisition-related costs which were expensed as incurred and are reflected within General, Administrative and Other in the Consolidated Statements of Operations.

**Goodwill and Intangible Assets**

Goodwill has been allocated to each of the Partnership’s five segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), Credit (\$346.4 million) and Financial Advisory (\$68.9 million).

The carrying value of goodwill was \$1.8 billion as of December 31, 2013 and \$1.7 billion as of December 31, 2012. As of December 31, 2013 and 2012, the Partnership evaluated that it was not more likely than not that the fair value of its operating segments was less than their respective carrying values.

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Intangible Assets, Net consists of the following:

	December 31,	
	2013	2012
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,594,128	\$1,536,244
Accumulated Amortization	(1,033,380)	(937,709)
Intangible Assets, Net	<u>\$ 560,748</u>	<u>\$ 598,535</u>

Changes in the Partnership's Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2013	2012	2011
Balance, Beginning of Year	\$598,535	\$ 595,488	\$ 779,311
Amortization Expense	(95,671)	(139,174)	(207,591)
Acquisitions	57,884	142,221	23,768
Balance, End of Year	<u>\$560,748</u>	<u>\$ 598,535</u>	<u>\$ 595,488</u>

Amortization of Intangible Assets held at December 31, 2013 is expected to be \$102.3 million, \$95.8 million, \$85.6 million, \$46.5 million, and \$46.5 million for each of the years ending December 31, 2014, 2015, 2016, 2017 and 2018, respectively. Blackstone's intangible assets as of December 31, 2013 are expected to amortize over a weighted-average period of 7.4 years.

**4. INVESTMENTS**

Investments consist of the following:

	December 31,	
	2013	2012
Investments of Consolidated Blackstone Funds	\$12,521,248	\$14,026,745
Equity Method Investments	3,309,879	2,582,504
Blackstone's Treasury Cash Management Strategies	1,104,800	1,411,680
Performance Fees	4,674,792	2,780,217
Other Investments	118,804	46,124
	<u>\$21,729,523</u>	<u>\$20,847,270</u>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$487.8 million and \$500.5 million at December 31, 2013 and December 31, 2012, respectively.

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**Investments of Consolidated Blackstone Funds**

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income—Net Gains from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2013	2012	2011
Realized Gains (Losses)	\$205,741	\$ (3,502)	\$ 226,427
Net Change in Unrealized Gains (Losses)	(26,800)	58,602	(308,364)
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	178,941	55,100	(81,937)
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	202,723	201,045	96,872
Other Income—Net Gains from Fund Investment Activities	<u>\$381,664</u>	<u>\$256,145</u>	<u>\$ 14,935</u>

**Equity Method Investments**

Blackstone’s equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended December 31, 2013, 2012 and 2011, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”) and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$591.9 million, \$199.7 million and \$135.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.



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The summarized financial information of the Partnership's equity method investments for December 31, 2013 are as follows:

	December 31, 2013 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$35,516,755	\$57,053,881	\$11,529,163	\$12,150,918	\$ 26,839	\$116,277,556
Other Assets	389,265	3,441,977	1,114,404	2,678,742	128,826	7,753,214
<b>Total Assets</b>	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 1,691,018	\$ 3,013,762	\$ 63,830	\$ 1,165,405	\$ 967	\$ 5,934,982
Other Liabilities	54,909	886,445	689,964	1,131,557	14,222	2,777,097
<b>Total Liabilities</b>	<u>1,745,927</u>	<u>3,900,207</u>	<u>753,794</u>	<u>2,296,962</u>	<u>15,189</u>	<u>8,712,079</u>
Partners' Capital	34,160,093	56,595,651	11,889,773	12,532,698	140,476	115,318,691
<b>Total Liabilities and Partners' Capital</b>	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
<b>Statement of Operations</b>						
Interest Income	\$ 294,171	\$ 140,879	\$ 224	\$ 630,902	\$ 4	\$ 1,066,180
Other Income	10,580	752,184	89,632	30,937	101,214	984,547
Interest Expense	(37,846)	(51,544)	(310)	(68,973)	—	(158,673)
Other Expenses	(88,957)	(108,580)	(71,326)	(105,706)	(65,197)	(439,766)
Net Realized and Unrealized Gain from Investments	9,002,197	13,225,141	1,127,173	1,979,078	2,944	25,336,533
<b>Net Income</b>	<u>\$ 9,180,145</u>	<u>\$13,958,080</u>	<u>\$ 1,145,393</u>	<u>\$ 2,466,238</u>	<u>\$ 38,965</u>	<u>\$ 26,788,821</u>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2012 are as follows:

	December 31, 2012 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$31,308,915	\$40,230,098	\$8,193,041	\$11,066,214	\$ 22,345	\$90,820,613
Other Assets	1,289,961	1,714,990	1,173,627	2,516,388	46,178	6,741,144
<b>Total Assets</b>	<b><u>\$32,598,876</u></b>	<b><u>\$41,945,088</u></b>	<b><u>\$9,366,668</u></b>	<b><u>\$13,582,602</u></b>	<b><u>\$ 68,523</u></b>	<b><u>\$97,561,757</u></b>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 1,478,929	\$ 1,336,305	\$ 65,103	\$ 1,043,595	\$ 972	\$ 3,924,904
Other Liabilities	91,519	703,412	642,925	1,401,910	20,192	2,859,958
<b>Total Liabilities</b>	<b><u>1,570,448</u></b>	<b><u>2,039,717</u></b>	<b><u>708,028</u></b>	<b><u>2,445,505</u></b>	<b><u>21,164</u></b>	<b><u>6,784,862</u></b>
Partners' Capital	31,028,428	39,905,371	8,658,640	11,137,097	47,359	90,776,895
<b>Total Liabilities and Partners' Capital</b>	<b><u>\$32,598,876</u></b>	<b><u>\$41,945,088</u></b>	<b><u>\$9,366,668</u></b>	<b><u>\$13,582,602</u></b>	<b><u>\$ 68,523</u></b>	<b><u>\$97,561,757</u></b>
<b>Statement of Operations</b>						
Interest Income	\$ 350,153	\$ 128,624	\$ 194	\$ 712,490	\$ —	\$ 1,191,461
Other Income	13,255	294,105	36,797	7,283	76,809	428,249
Interest Expense	(23,060)	(39,103)	(1,024)	(60,082)	—	(123,269)
Other Expenses	(48,926)	(64,569)	(60,114)	(101,451)	(48,744)	(323,804)
Net Realized and Unrealized Gain from						
Investments	3,916,697	4,979,027	798,892	1,362,351	1,014	11,057,981
<b>Net Income</b>	<b><u>\$ 4,208,119</u></b>	<b><u>\$ 5,298,084</u></b>	<b><u>\$ 774,745</u></b>	<b><u>\$ 1,920,591</u></b>	<b><u>\$ 29,079</u></b>	<b><u>\$12,230,618</u></b>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2011 are as follows:

	December 31, 2011 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$25,788,678	\$29,856,855	\$6,322,821	\$ 8,887,081	\$ 5,018	\$70,860,453
Other Assets	321,271	1,736,245	1,167,162	2,355,318	51,153	5,631,149
<b>Total Assets</b>	<b>\$26,109,949</b>	<b>\$31,593,100</b>	<b>\$7,489,983</b>	<b>\$11,242,399</b>	<b>\$ 56,171</b>	<b>\$76,491,602</b>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 863,672	\$ 1,384,867	\$ 123,925	\$ 444,313	\$ 979	\$ 2,817,756
Other Liabilities	194,873	334,175	461,854	848,534	25,740	1,865,176
<b>Total Liabilities</b>	<b>1,058,545</b>	<b>1,719,042</b>	<b>585,779</b>	<b>1,292,847</b>	<b>26,719</b>	<b>4,682,932</b>
Partners' Capital	25,051,404	29,874,058	6,904,204	9,949,552	29,452	71,808,670
<b>Total Liabilities and Partners' Capital</b>	<b>\$26,109,949</b>	<b>\$31,593,100</b>	<b>\$7,489,983</b>	<b>\$11,242,399</b>	<b>\$ 56,171</b>	<b>\$76,491,602</b>
<b>Statement of Operations</b>						
Interest Income	\$ 116	\$ 82,166	\$ 89	\$ 581,090	\$ 2	\$ 663,463
Other Income	516,729	159,400	19,275	26,760	66,456	788,620
Interest Expense	(14,826)	(19,142)	(172)	(24,672)	—	(58,812)
Other Expenses	(50,591)	(54,907)	(51,063)	(78,427)	(25,040)	(260,028)
<b>Net Realized and Unrealized Gain (Loss)</b>						
from Investments	1,510,622	4,086,549	(71,790)	380,609	—	5,905,990
<b>Net Income (Loss)</b>	<b>\$ 1,962,050</b>	<b>\$ 4,254,066</b>	<b>\$ (103,661)</b>	<b>\$ 885,360</b>	<b>\$ 41,418</b>	<b>\$ 7,039,233</b>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**Blackstone's Treasury Cash Management Strategies**

The portion of Blackstone's Treasury Cash Management Strategies included in Investments represents the Partnership's liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone's Treasury Cash Management Strategies:

	Year Ended December 31,		
	2013	2012	2011
Realized Gains (Losses)	\$ (5,793)	\$9,095	\$ 9,738
Net Change in Unrealized Gains (Losses)	(9,342)	(502)	641
	<b>\$ (15,135)</b>	<b>\$8,593</b>	<b>\$10,379</b>

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**Performance Fees**

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund		Total
			Solutions	Credit	
Performance Fees, December 31, 2012	\$ 780,474	\$1,633,279	\$ 6,214	\$ 360,250	\$ 2,780,217
Performance Fees Allocated as a Result of Changes in Fund					
Fair Values	614,554	2,084,222	68,609	214,372	2,981,757
Foreign Exchange Gain	—	7,733	—	—	7,733
Fund Distributions	(423,168)	(456,628)	(65,355)	(149,764)	(1,094,915)
Performance Fees, December 31, 2013	<u>\$ 971,860</u>	<u>\$3,268,606</u>	<u>\$ 9,468</u>	<u>\$ 424,858</u>	<u>\$ 4,674,792</u>

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Year Ended December 31,		
	2013	2012	2011
Realized Gains	\$13,468	\$ 743	\$ 948
Net Change in Unrealized Gains (Losses)	(6,758)	(371)	(21,968)
	<u>\$ 6,710</u>	<u>\$ 372</u>	<u>\$(21,020)</u>

**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2013 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption	Redemption
			Frequency (if currently eligible)	Notice Period
Diversified Instruments	\$142,547	\$ 3,590	(a)	(a)
Credit Driven	180,996	—	(b)	(b)
Event Driven	121,455	—	(c)	(c)
Equity	424,971	—	(d)	(d)
Commodities	58,621	—	(e)	(e)
	<u>\$928,590</u>	<u>\$ 3,590</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 65% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 28% of the fair value of the investments in this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption

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restriction may lapse cannot be estimated. The remaining 7% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side-pocket 18% of Blackstone's investments in this category.

- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 94% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 6% of the total fair value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket any of Blackstone's investments in this category.
- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 95% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 5% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Fair Value Hedges**

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were previously used to hedge a portion of the interest rate risk on the Partnership's fixed rate borrowings. The impact to the Consolidated Statements of Operations for the period up through the date of de-designation is reflected within "Fair Value Hedges" in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

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The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	December 31, 2013				December 31, 2012			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Freestanding Derivatives</b>								
Blackstone—Other								
Interest Rate Contracts	\$1,994,276	\$ 8,521	\$1,083,140	\$ 2,676	\$ 689,300	\$55,270	\$ 636,555	\$ 4,116
Foreign Currency Contracts	166,066	1,480	163,787	1,015	16,771	74	7,025	81
Total Return Swaps	326,929	342	—	—	—	—	—	—
Credit Default Swaps	—	—	10,000	591	—	—	—	—
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	396,569	30,830	239,037	10,018	435,229	37,898	301,551	17,101
Interest Rate Contracts	62,193	3,726	—	—	165,517	6,132	90,500	772
Total	<u>\$2,946,033</u>	<u>\$44,899</u>	<u>\$1,495,964</u>	<u>\$14,300</u>	<u>\$1,306,817</u>	<u>\$99,374</u>	<u>\$1,035,631</u>	<u>\$22,070</u>

The table below summarizes the impact to the Consolidated Statements of Operations from derivative financial instruments:

	Year Ended December 31,		
	2013	2012	2011
<b>Fair Value Hedges—Interest Rate Swaps</b>			
Hedge Ineffectiveness	\$ —	\$ 548	\$ 4,649
Excluded from Assessment of Effectiveness	\$ —	\$ (938)	\$ (3,465)
Realized Gain	\$ —	\$22,941	\$ —
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$34,206	\$ (2,752)	\$ (8,634)
Foreign Currency Contracts	4,022	(3,816)	1,739
Credit Default Swaps	752	(1)	(111)
Other	—	—	(153)
Total	<u>\$38,980</u>	<u>\$ (6,569)</u>	<u>\$ (7,159)</u>
Net Change in Unrealized Gains (Losses)			
Interest Rate Contracts	\$ (1,947)	\$12,134	\$ 8,718
Foreign Currency Contracts	2,636	(5,523)	(33,408)
Other	392	—	(7)
Total	<u>\$ 1,081</u>	<u>\$ 6,611</u>	<u>\$ (24,697)</u>

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Since the inception of the above mentioned hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment is being accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2013, 2012 and 2011, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

**7. FAIR VALUE OPTION**

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

	December 31,	
	2013	2012
<b>Assets</b>		
Loans and Receivables	\$ 137,788	\$ 30,663
Equity and Preferred Securities	88,568	16,147
Assets of Consolidated CLO Vehicles		
Corporate Loans	8,466,889	11,053,513
Corporate Bonds	161,382	162,456
Other	41,061	18,285
	<u>\$8,895,688</u>	<u>\$11,281,064</u>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$8,302,572	\$10,695,136
Subordinated Notes	610,435	846,471
	<u>\$8,913,007</u>	<u>\$11,541,607</u>

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

	Year Ended December 31,					
	2013		2012		2011	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ 43	\$ (1,101)	\$ (308)	\$ (375)	\$ —	\$ (228)
Equity and Preferred Securities	(2,833)	7,273	(353)	500	—	—
Assets of Consolidated CLO Vehicles						
Corporate Loans	37,464	172,968	(35,428)	554,628	76,314	(396,946)
Corporate Bonds	4,510	(5,058)	393	13,264	1,099	(7,605)
Other	2,647	(476)	2,425	11,889	13,296	29,908
	<u>\$41,831</u>	<u>\$ 173,606</u>	<u>\$(33,271)</u>	<u>\$ 579,906</u>	<u>\$90,709</u>	<u>\$ (374,871)</u>
<b>Liabilities</b>						
Liabilities of Consolidated CLO Vehicles						
Senior Secured Notes	\$ (6,078)	\$ (485,655)	\$ 17	\$ (603,250)	\$ 5,798	\$ 58,067
Subordinated Notes	—	96,991	—	(69,141)	4,694	44,061
	<u>\$ (6,078)</u>	<u>\$ (388,664)</u>	<u>\$ 17</u>	<u>\$ (672,391)</u>	<u>\$10,492</u>	<u>\$ 102,128</u>

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The following table presents information for those financial instruments for which the fair value option was elected:

	December 31, 2013			December 31, 2012		
	For Financial Assets Past Due (a)			For Financial Assets Past Due (a)		
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (533)	\$ —	\$ —	\$ (292)	\$ —	\$ —
Assets of Consolidated CLO Vehicles						
Corporate Loans	(281,254)	57,837	(176,379)	(586,450)	35,322	(73,291)
Corporate Bonds	(1,789)	—	—	(984)	831	(44)
	<u>\$ (283,576)</u>	<u>\$57,837</u>	<u>\$ (176,379)</u>	<u>\$ (587,726)</u>	<u>\$36,153</u>	<u>\$ (73,335)</u>

(a) Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2013 and 2012, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of December 31, 2013, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.



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**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy:

	December 31, 2013			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ —	\$ 897,843	\$ 897,843
Equity Securities	51,147	130,816	193,699	375,662
Partnership and LLC Interests	—	88,555	1,254,903	1,343,458
Debt Instruments	—	1,154,902	45,495	1,200,397
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,537,661	929,228	8,466,889
Corporate Bonds	—	161,382	—	161,382
Freestanding Derivatives—Foreign Currency Contracts	—	30,830	—	30,830
Freestanding Derivatives—Interest Rate Contracts	—	3,726	—	3,726
Other	3,477	—	37,584	41,061
Total Investments of Consolidated Blackstone Funds	54,624	9,107,872	3,358,752	12,521,248
Blackstone's Treasury Cash Management Strategies	19,629	1,041,039	44,132	1,104,800
Money Market Funds	173,781	—	—	173,781
Freestanding Derivatives				
Interest Rate Contracts	7,423	1,098	—	8,521
Foreign Currency Contracts	—	1,480	—	1,480
Total Return Swaps	—	342	—	342
Loans and Receivables	—	—	137,788	137,788
Other Investments	87,068	17,270	14,466	118,804
	<u>\$342,525</u>	<u>\$10,169,101</u>	<u>\$3,555,138</u>	<u>\$14,066,764</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$8,302,572	\$ 8,302,572
Subordinated Notes	—	—	610,435	610,435
Freestanding Derivatives—Foreign Currency Contracts	—	10,018	—	10,018
Freestanding Derivatives				
Interest Rate Contracts	2,484	192	—	2,676
Foreign Currency Contracts	—	1,015	—	1,015
Credit Default Swaps	—	591	—	591
Securities Sold, Not Yet Purchased	—	76,195	—	76,195
	<u>\$ 2,484</u>	<u>\$ 88,011</u>	<u>\$8,913,007</u>	<u>\$ 9,003,502</u>

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	December 31, 2012			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ 1,799	\$ 890,465	\$ 892,264
Equity Securities	95,898	28,654	217,060	341,612
Partnership and LLC Interests	212	12,375	581,151	593,738
Debt Instruments	—	903,123	17,724	920,847
Assets of Consolidated CLO Vehicles				
Corporate Loans	—	9,775,070	1,278,443	11,053,513
Corporate Bonds	—	146,625	15,831	162,456
Freestanding Derivatives—Foreign Currency Contracts	—	37,898	—	37,898
Freestanding Derivatives—Interest Rate Contracts	—	6,132	—	6,132
Other	—	1,260	17,025	18,285
Total Investments of Consolidated Blackstone Funds	96,110	10,912,936	3,017,699	14,026,745
Blackstone's Treasury Cash Management Strategies	672,766	737,708	1,206	1,411,680
Money Market Funds	129,549	—	—	129,549
Freestanding Derivatives				
Interest Rate Contracts	486	54,784	—	55,270
Foreign Currency Contracts	—	74	—	74
Loans and Receivables	—	—	30,663	30,663
Other Investments	12,443	6,783	26,898	46,124
	<u>\$911,354</u>	<u>\$11,712,285</u>	<u>\$ 3,076,466</u>	<u>\$15,700,105</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$10,695,136	\$10,695,136
Subordinated Notes	—	—	846,471	846,471
Freestanding Derivatives—Foreign Currency Contracts	—	17,101	—	17,101
Freestanding Derivatives—Interest Rate Contracts	—	772	—	772
Freestanding Derivatives				
Interest Rate Contracts	277	3,839	—	4,116
Foreign Currency Contracts	—	81	—	81
Securities Sold, Not Yet Purchased	—	226,425	—	226,425
	<u>\$ 277</u>	<u>\$ 248,218</u>	<u>\$11,541,607</u>	<u>\$11,790,102</u>

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.

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The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of December 31, 2013 and 2012, respectively:

	Year Ended December 31,	
	2013	2012
Transfers from Level I into Level II (a)	\$28,670	\$15,928
Transfers from Level II into Level I (b)	\$ 1,308	\$ 588

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2013:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$897,843	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	112,117	Discounted Cash Flows	Discount Rate	9.2% - 26.3%	12.4%
			Revenue CAGR	0.9% - 46.2%	6.8%
			Exit Multiple-EBITDA	5.0x - 14.0x	8.9x
			Exit Multiple-P/E	8.5x - 17.0x	9.8x
	78,154	Transaction Price	N/A	N/A	N/A
	275	Market Comparable Companies	EBITDA Multiple	6.3x - 7.5x	6.9x
	50	Third Party Pricing	N/A	N/A	N/A
	3,103	Other	N/A	N/A	N/A
Partnership and LLC Interests	557,534	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	9.0%
			Revenue CAGR	-0.7% - 17.7%	5.5%
			Exit Multiple-EBITDA	3.0x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	687,246	Transaction Price	N/A	N/A	N/A
	9,181	Third Party Pricing	N/A	N/A	N/A
	942	Other	N/A	N/A	N/A
Debt Instruments	11,814	Discounted Cash Flows	Discount Rate	10.7% - 21.0%	19.2%
			Revenue CAGR	4.8% - 5.5%	4.8%
			Exit Multiple-EBITDA	5.8x - 11.1x	10.8x
			Exit Capitalization Rate	6.4% - 7.5%	6.7%
			Default Rate	2.0%	N/A
			Recovery Rate	67.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	31,675	Third Party Pricing	N/A	N/A	N/A
	1,772	Transaction Price	N/A	N/A	N/A
	234	Market Comparable Companies	EBITDA Multiple	6.2x - 8.0x	6.2x

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	Fair Value	Valuation Techniques	Unobservable		Weighted Average (a)
			Inputs	Ranges	
Assets of Consolidated CLO Vehicles	\$ 615,414	Third Party Pricing	N/A	N/A	N/A
	293,382	Market Comparable	EBITDA Multiple	3.5x - 11.3x	7.3x
	57,936	Companies Discounted Cash Flows	Discount Rate	7.0% - 14.0%	7.8%
	80	Transaction Price	Revenue CAGR Exit Multiple-EBITDA	4.2% 8.0x	N/A N/A
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>3,358,752</b>				
Blackstone's Treasury Cash Management Strategies	17,040	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	16,993	Third Party Pricing	Discount Rate	6.0% - 8.6%	6.6%
	10,099	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	137,788	Discounted Cash Flows	Discount Rate	N/A	N/A
Other Investments	7,927	Transaction Price	N/A	11.0% - 14.8%	12.6%
	3,725	NAV as Fair Value	N/A	N/A	N/A
	2,814	Discounted Cash Flows	Discount Rate	N/A	N/A
<b>Total</b>	<b><u>\$3,555,138</u></b>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<b><u>\$8,913,007</u></b>	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	0.4% - 24.2%	2.6%
			Reinvestment Rate	LIBOR + 400 bps	N/A

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2012:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$890,465	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	151,899	Discounted Cash Flows	Discount Rate	8.4% - 25.1%	11.2%
			Revenue CAGR	0.7% - 83.4%	5.6%
			Exit Multiple-EBITDA	5.8x - 11.5x	9.2x
				8.5x - 17.0x	10.1x
	61,479	Transaction Price	Exit Multiple-P/E	N/A	N/A
	1,602	Market Comparable	N/A	N/A	N/A
		Book Value Multiple	0.9x	N/A	N/A
		EBITDA Multiple	5.0x - 8.7x	7.8x	
	200	Companies	N/A	N/A	N/A
	1,880	Third Party Pricing	N/A	N/A	N/A
		Other	N/A	N/A	N/A
Partnership and LLC Interests	562,678	Discounted Cash Flows	Discount Rate	5.3% - 22.6%	8.9%
			Revenue CAGR	-8.2% - 62.0%	5.3%
			Exit Multiple-EBITDA	4.5x - 15.4x	10.0x
				1.0% - 10.5%	7.0%
			Exit Capitalization		

13,316	Transaction Price	Rate		
5,157	Third Party Pricing	N/A	N/A	N/A
		N/A	N/A	N/A

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	<u>Fair Value</u>	<u>Valuation Techniques</u>	Unobservable		<u>Weighted Average (a)</u>
			<u>Inputs</u>	<u>Ranges</u>	
Debt Instruments	\$ 13,056	Discounted Cash Flows	Discount Rate	7.8% - 42.0%	15.6%
				2.9% -5.1%	3.8%
			Revenue	9.5x	N/A
			CAGR	7.0% -7.5%	7.1%
			Exit Multiple-EBITDA	70.0%	N/A
			Exit	12 months	N/A
			Capitalization Rate	20.0%	N/A
			Default Rate	LIBOR + 400 bps	N/A
			Recovery Rate		
			Recovery Lag		
			Pre-payment Rate		
			Reinvestment Rate		
	4,004	Third Party Pricing	N/A	N/A	N/A
	664	Market Comparable Companies	EBITDA Multiple	6.5x-7.5x	6.7x
Assets of Consolidated CLO Vehicles	900,146	Third Party Pricing	N/A	N/A	N/A
	278,972	Market Comparable Companies	EBITDA Multiple	2.0x - 13.0x	6.5x
			Liquidity Discount	1.0% - 25.0%	8.4%
	132,171	Discounted Cash Flows	Discount Rate	7.0% - 15.7%	9.3%
	10	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,017,699				
Blackstone's Treasury Cash Management Strategies	1,006	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	12.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	200	Transaction Price	N/A	N/A	N/A
Loans and Receivables	30,620	Discounted Cash Flows	Discount Rate	11.8% - 25.9%	13.7%
	43	Market Comparable Companies	EBITDA Multiple	8.7x	N/A
Other Investments	17,901	NAV as Fair Value	N/A	N/A	N/A
	5,647	Discounted Cash Flows	Discount Rate	12.5%	N/A
	3,350	Transaction Price	N/A	N/A	N/A
Total	<u>\$ 3,076,466</u>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<u>\$11,541,607</u>	Discounted Cash Flows	Default Rate	2.0% - 5.0%	2.1%
			Recovery Rate	30.0% -70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	1.1% - 50.0%	3.9%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A Not applicable.  
CAGR Compound annual growth rate.  
EBITDA Earnings before interest, taxes, depreciation and amortization.  
Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.  
(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the assets, Blackstone's Treasury Cash Management Strategies, debt instruments and obligations of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in

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isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, book value multiples, EBITDA multiples, liquidity discount and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples, book value multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

Since December 31, 2012, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value							
	2013				2012			
	Investments of				Investments of			
	Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466	\$ 2,103,769	\$ 8,555	\$ 20,164	\$2,132,488
Transfer In Due to Consolidation and Acquisition (a)	673,031	—	11,960	684,991	246,022	—	—	246,022
Transfer Out Due to Deconsolidation	(284,960)	—	—	(284,960)	(1,599)	—	—	(1,599)
Transfer In to Level III (b)	624,450	—	12,627	637,077	687,225	—	—	687,225
Transfer Out of Level III (b)	(481,637)	—	(9,241)	(490,878)	(150,097)	—	—	(150,097)
Purchases	733,356	370,508	129,122	1,232,986	772,305	176,641	7,700	956,646
Sales	(1,249,271)	(265,996)	(112,833)	(1,628,100)	(809,367)	(154,293)	(703)	(964,363)
Settlements	—	2,312	(1,958)	354	—	(46)	—	(46)
Realized Gains (Losses), Net	64,681	43	13,934	78,658	(17,201)	(308)	449	(17,060)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	261,403	258	(13,117)	248,544	186,642	114	494	187,250
Balance, End of Period	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138	\$ 3,017,699	\$ 30,663	\$ 28,104	\$3,076,466

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	Level III Financial Liabilities at Fair Value Year Ended December 31,					
	2013			2012		
	Collateralized	Collateralized		Collateralized	Collateralized	
	Loan Obligations Senior Notes	Loan Obligations Subordinated Notes	Total	Loan Obligations Senior Notes	Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ 10,695,136	\$ 846,471	\$11,541,607	\$ 7,449,766	\$ 630,236	\$ 8,080,002
Transfer In Due to Consolidation and Acquisition (a)	—	—	—	3,419,084	149,225	3,568,309
Transfer Out Due to Deconsolidation	(1,100,842)	(150,925)	(1,251,767)	—	—	—
Issuances	41,233	784	42,017	15,602	2,218	17,820
Settlements	(2,034,367)	(530)	(2,034,897)	(895,302)	(3,588)	(898,890)
Realized (Gains) Losses, Net	6,078	—	6,078	(17)	—	(17)
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	695,334	(85,365)	609,969	706,003	68,380	774,383
Balance, End of Period	<u>\$ 8,302,572</u>	<u>\$ 610,435</u>	<u>\$ 8,913,007</u>	<u>\$ 10,695,136</u>	<u>\$ 846,471</u>	<u>\$11,541,607</u>

- (a) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities, the acquisition of management contracts and the Harbourmaster acquisition.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

## 9. VARIABLE INTEREST ENTITIES

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.



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The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	December 31,	
	2013	2012
Investments	\$ 758,304	\$364,709
Accounts Receivable	166,908	1,885
Due from Affiliates	86,246	112,686
Total VIE Assets	1,011,458	479,280
Due to Affiliates	397	2,657
Accounts Payable, Accrued Expenses and Other Liabilities	2	—
Potential Clawback Obligation	63,290	36,040
Maximum Exposure to Loss	<u>\$1,075,147</u>	<u>\$517,977</u>

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At December 31, 2013, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$148.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$148.4 million were used to cover Securities Sold, Not Yet Purchased and Repurchase Agreements. The Partnership also pledged securities with a carrying value of \$316.6 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2012, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$247.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$226.4 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$141.9 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

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**11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other Assets consists of the following:

	December 31,	
	2013	2012
Furniture, Equipment and Leasehold Improvements	\$ 325,700	\$ 300,105
Less: Accumulated Depreciation	(188,612)	(157,715)
Furniture, Equipment and Leasehold Improvements, Net	137,088	142,390
Prepaid Expenses	61,226	81,498
Other Assets	75,815	97,140
Freestanding Derivatives	10,343	55,344
	<u>\$ 284,472</u>	<u>\$ 376,372</u>

Depreciation expense of \$33.6 million, \$34.0 million and \$31.6 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2013, 2012 and 2011, respectively, is included in General, Administrative and Other in the accompanying Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$57.0 million and \$170.4 million as of December 31, 2013 and 2012, respectively, relating to redemptions that were legally payable to investors as of the balance sheet dates and \$229.1 million and \$352.3 million of payables relating to unsettled purchases within Blackstone's consolidated funds, respectively.

**12. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of December 31, 2013:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Cash Collateral		
		Financial Instruments	Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 10,343	\$ 3,025	\$ 582	\$ 6,736
Reverse Repurchase Agreements	148,984	148,394	—	590
Total	<u>\$ 159,327</u>	<u>\$ 151,419</u>	<u>\$ 582</u>	<u>\$ 7,326</u>

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Cash Collateral		
		Financial Instruments	Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 4,282	\$ 3,025	\$ 1,257	\$ —
Repurchase Agreements	316,352	316,352	—	—
Total	<u>\$ 320,634</u>	<u>\$ 319,377</u>	<u>\$ 1,257</u>	<u>\$ —</u>

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The following tables present the offsetting of assets and liabilities as of December 31, 2012:

	Gross and Net Amounts of Assets	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
	Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral	
		Received		
<b>Assets</b>				
Freestanding Derivatives	\$ 55,344	\$ 3,983	\$ 36,748	\$ 14,613
Reverse Repurchase Agreements	248,018	248,018	—	—
Total	<u>\$ 303,362</u>	<u>\$ 252,001</u>	<u>\$ 36,748</u>	<u>\$ 14,613</u>

	Gross and Net Amounts of Liabilities	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
	Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral	
		Pledged		
<b>Liabilities</b>				
Freestanding Derivatives	\$ 4,197	\$ 3,983	\$ —	\$ 214
Repurchase Agreements	142,266	142,266	—	—
Total	<u>\$ 146,463</u>	<u>\$ 146,249</u>	<u>\$ —</u>	<u>\$ 214</u>

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. See Note 11. "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities" for the components of Other Assets.

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Statements of Financial Condition and are not a significant component thereof.

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**13. BORROWINGS**

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected Blackstone Funds. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership's credit facilities consist of the following:

	December 31,					
	2013			2012		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$ 1,100,000	\$ 717	1.25%	\$ 1,100,000	\$ 717	1.25%
Blackstone Issued 6.625% Notes Due 8/15/2019 (b) (e)	585,000	585,000	6.63%	585,000	585,000	6.63%
Blackstone Issued 5.875% Notes Due 3/15/2021 (c) (e)	400,000	400,000	5.88%	400,000	400,000	5.88%
Blackstone Issued 4.750% Notes Due 2/15/2023 (d) (e)	400,000	400,000	4.75%	400,000	400,000	4.75%
Blackstone Issued 6.250% Notes Due 8/15/2042 (d) (e)	250,000	250,000	6.25%	250,000	250,000	6.25%
Operating Entities Facilities (f)	—	—	n/a	6,228	6,228	1.03%
	<u>2,735,000</u>	<u>1,635,717</u>	5.92%	<u>2,741,228</u>	<u>1,641,945</u>	5.90%
Blackstone Fund Facilities (g)	13,075	13,075	3.19%	23,842	23,842	2.03%
CLO Vehicles (h)	9,891,473	9,826,621	1.09%	13,055,784	12,967,302	1.34%
	<u>\$12,639,548</u>	<u>\$11,475,413</u>	1.78%	<u>\$15,820,854</u>	<u>\$14,633,089</u>	1.86%

- (a) Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent with a maturity date of July 13, 2017. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly. As of December 31, 2013, there was an outstanding but undrawn letter of credit against the credit facility for \$0.7 million.
- (b) On August 20, 2009, Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, issued \$600 million of senior notes. The notes, which were issued at a discount, accrue interest from August 20, 2009. Interest is paid semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. Interest expense on the notes was \$38.8 million, \$39.4 million and \$39.8 million for the years ended December 31, 2013, December 31, 2012 and December 31, 2011, respectively. The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (c) On September 15, 2010, the Issuer issued \$400 million of senior notes. The notes, which were issued at a discount, accrue interest from September 20, 2010. Interest is payable semiannually in arrears on March 15

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and September 15 of each year, commencing on March 15, 2011. Interest expense on the notes was \$23.5 million, \$23.5 million and \$23.5 million for the years ended December 31, 2013, December 31, 2012 and December 31, 2011, respectively.

- (d) On August 17, 2012, the Issuer issued \$400 million of senior notes due February 15, 2023 and \$250 million of senior notes maturing August 15, 2042. The notes, which were issued at a discount, accrue interest from August 17, 2012. Interest is payable semiannually in arrears on February 15 and September 15 of each year, commencing on February 15, 2013. Interest expense on the \$400 million note was \$19.0 million and \$7.1 million for the years ended December 31, 2013 and December 31, 2012, respectively. Interest expense on the \$250 million note was \$15.6 million and \$5.8 million for the years ended December 31, 2013 and December 31, 2012, respectively.
- (e) Represents long term borrowings in the form of senior notes (the “Notes”) issued by the Issuer. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings, and the Issuer (the “Guarantors”). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. The indentures include covenants, including limitations on the Issuer’s and the Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indentures also provide for events of default and further provide that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer’s option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase.
- (f) Represents borrowings under a capital asset purchase facility. The capital asset purchase facility is secured by the purchased asset and borrowings bear interest at a spread to LIBOR. The borrowings were paid down during 2013.
- (g) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Because the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.
- (h) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition.

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The carrying value and fair value of the Blackstone issued notes, included in Loans Payable within the Consolidated Statements of Financial Condition, were:

	December 31,			
	2013		2012	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$632,823	\$684,860	\$640,220	\$682,344
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$398,543	\$447,120	\$398,386	\$456,200
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$393,202	\$415,760	\$392,629	\$426,160
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$239,738	\$278,550	\$239,619	\$275,275

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.  
(b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	December 31,					
	2013			2012		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$8,605,553	1.09%	4.1	\$11,518,111	1.34%	4.6
Subordinated Notes	1,221,068	(a)	N/A	1,449,191	(a)	2.6
	<u>\$9,826,621</u>			<u>\$12,967,302</u>		

- (a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	December 31,					
	2013			2012		
	Amounts Due to Non-Consolidated Affiliates			Amounts Due to Non-Consolidated Affiliates		
	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 8,302,572	\$ 14,500	\$ 13,732	\$ 10,695,136	\$ 22,000	\$ 18,229
Subordinated Notes	\$ 610,435	\$ 224,444	\$ 110,197	\$ 846,471	\$ 258,156	\$ 172,899

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The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of December 31, 2013 and 2012, the fair value of the consolidated CLO assets was \$9.5 billion and \$12.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2013.

Scheduled principal payments for borrowings at December 31, 2013 are as follows:

	Blackstone Fund		
	Operating Borrowings	Facilities / CLO Vehicles	Total Borrowings
2014	\$ —	\$ 8,066	\$ 8,066
2015	—	5,009	5,009
2018 and Thereafter	1,635,000	9,826,621	11,461,621
Total	<u>\$1,635,000</u>	<u>\$ 9,839,696</u>	<u>\$ 11,474,696</u>

**14. INCOME TAXES**

The Provision for Income Taxes consists of the following:

	Year Ended December 31,		
	2013	2012	2011
<b>Current</b>			
Federal Income Tax	\$ 19,237	\$ 5,928	\$ 4,509
Foreign Income Tax	13,302	16,921	22,741
State and Local Income Tax	33,273	36,022	8,997
	<u>65,812</u>	<u>58,871</u>	<u>36,247</u>
<b>Deferred</b>			
Federal Income Tax	157,962	100,875	226,153
Foreign Income Tax	(638)	(691)	403
State and Local Income Tax	32,506	25,968	82,908
	<u>189,830</u>	<u>126,152</u>	<u>309,464</u>
Provision for Taxes	<u>\$255,642</u>	<u>\$185,023</u>	<u>\$345,711</u>

The following table summarizes Blackstone's tax position:

	Year Ended December 31,		
	2013	2012	2011
Income Before Provision for Taxes	\$3,148,561	\$1,014,905	\$ 77,258
Total Provision for Taxes	\$ 255,642	\$ 185,023	\$345,711
Effective Income Tax Rate	8.1%	18.2%	447.5%

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The following table reconciles the Provision for Taxes to the U.S. federal statutory tax rate:

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest			
Holders (a)	-28.7%	-23.6%	76.9%
Interest Expense	-0.9%	-3.4%	-47.0%
Foreign Income Taxes	-0.2%	-3.2%	10.5%
State and Local Income Taxes	1.7%	3.0%	38.7%
Equity-Based Compensation	1.6%	9.3%	132.4%
Change in Tax Rate	0.6%	-0.1%	202.9%
Net Unrecognized Tax Positions	-0.2%	0.7%	7.8%
Non Deductible Expenses	0.0%	0.6%	2.5%
Tax Deductible Compensation	-0.3%	-0.4%	-10.2%
Other	-0.5%	0.3%	-2.0%
Effective Income Tax Rate (b)	<u>8.1%</u>	<u>18.2%</u>	<u>447.5%</u>

- (a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.
- (b) The effective tax rate is calculated on Income (Loss) Before Provision for Taxes.

In 2013, a subsidiary of the Partnership received Letter Rulings allowing the application of New York State and New York City laws that prescribe the sourcing of income of a registered securities or commodities broker resulting in a reduction to the rate of tax for 2013 and the rate of tax that Blackstone will pay in the future. In 2011, application of the New York State and New York City tax laws that source various types of receipts from services performed by registered brokers and dealers of securities and commodities for purposes of apportioning income resulted in a reduction to Blackstone's rate of tax for that year and to the rate of tax that Blackstone will pay in subsequent years. The reduction in the rate of tax resulted in a reduction in the 2013 and 2011 current tax provision and an increase in the 2013 and 2011 deferred tax provision with a corresponding reduction to the net Deferred Tax Assets of \$22.7 million and \$233.7 million, respectively, with the net result an increase to the effective income tax rate as reflected in the table above.



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Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	December 31,	
	2013	2012
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 8,728	\$ 16,719
Equity-Based Compensation	54,810	45,329
Unrealized Gains from Investments	(117,685)	(58,499)
Depreciation and Amortization	1,285,042	1,257,145
Net Operating Loss Carry Forward	12	18,780
Other	(21,700)	6,137
Total Deferred Tax Assets	<u>\$1,209,207</u>	<u>\$1,285,611</u>
<b>Deferred Tax Liabilities</b>		
Depreciation and Amortization	\$ 10	\$ 143
Total Deferred Tax Liabilities	<u>\$ 10</u>	<u>\$ 143</u>

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had a taxable loss of \$56.8 million and \$81.4 million for the years ended December 31, 2011 and 2010, respectively, of which \$8.8 million was carried back and utilized against prior year taxable income, \$74.9 million was utilized against taxable income generated in the tax year ended December 31, 2012 and \$54.6 million will be utilized against taxable income generated in the tax year ended December 31, 2013. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance.

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. At this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2013.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax

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regulators. As of December 31, 2013, Blackstone's U.S. federal income tax returns for the years 2010 through 2012 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service is examining certain corporate subsidiaries' 2007 through 2011 U.S. federal income tax returns. State and local tax returns are generally subject to audit from 2009 through 2012. Currently, the State of New York is examining the tax returns filed by Blackstone and certain of its subsidiaries for the years 2010 through 2011 and the City of New York is examining certain other subsidiaries' tax returns for the years 2007 through 2009. The Income Tax Department of the Government of India is examining the tax returns of the Indian subsidiaries for the years 2008 and 2009. Blackstone believes that during 2014 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

Blackstone's unrecognized tax benefits, excluding related interest and penalties, were:

	December 31,	
	2013	2012
Unrecognized Tax Benefits—January 1	\$ 30,742	\$12,234
Additions based on Tax Positions Related to Current Year	6,517	6,117
Additions for Tax Positions of Prior Years	3,435	16,733
Reductions for Tax Positions of Prior Years	(17,686)	(3,215)
Settlements	(3,538)	(1,596)
Exchange Rate Fluctuations	(608)	469
Unrecognized Tax Benefits—December 31	<u>\$ 18,862</u>	<u>\$30,742</u>

If the above tax benefits were recognized, \$18.9 million and \$26.8 million for the years ended December 31, 2013 and 2012, respectively would reduce the annual effective rate. Blackstone does not believe that it will have a material increase or decrease in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expense. During the year ended December 31, 2013, \$1.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2012, \$5.8 million of interest expense and \$0.5 million of penalties were accrued. During the year ended December 31, 2011, \$1.5 million of interest expense and no penalties were accrued.

On September 13, 2013, the U.S. Treasury Department and the IRS issued final regulations that address costs incurred in acquiring, producing, or improving tangible property ("the tangible property regulations"). The tangible property regulations are generally effective for tax years beginning on or after January 1, 2014, and may be adopted in earlier years. Management does not anticipate the impact of these changes to be material to the Partnership's consolidated financial condition or results of operations.

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**15. NET INCOME (LOSS) PER COMMON UNIT**

Basic and diluted net income (loss) per common unit for the years ended December 31, 2013, 2012 and 2011 was calculated as follows:

	Year Ended December 31,		
	2013	2012	2011
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 1,171,202	\$ 218,598	\$ (168,303)
<b>Basic Net Income (Loss) Per Common Unit</b>			
Weighted-Average Common Units Outstanding	587,018,828	533,703,606	475,582,718
Basic Net Income (Loss) Per Common Unit	\$ 2.00	\$ 0.41	\$ (0.35)
<b>Diluted Net Income (Loss) Per Common Unit</b>			
Weighted-Average Common Units Outstanding	587,018,828	533,703,606	475,582,718
Weighted-Average Unvested Deferred Restricted Common Units	3,527,812	4,965,464	—
Weighted-Average Diluted Common Units Outstanding	590,546,640	538,669,070	475,582,718
Diluted Net Income (Loss) Per Common Unit	\$ 1.98	\$ 0.41	\$ (0.35)

The following table summarizes the anti-dilutive securities for the periods indicated:

	Year Ended December 31,		
	2013	2012	2011
Weighted-Average Unvested Deferred Restricted Common Units	—	—	22,529,309
Weighted-Average Blackstone Holdings Partnership Units	553,579,525	590,446,577	628,115,753

**Unit Repurchase Program**

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the years ended December 31, 2013 and 2012, no units were repurchased. As of December 31, 2013, the amount remaining available for repurchases under this program was \$335.8 million.

During the year ended December 31, 2011, Blackstone repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total fair value of \$2.1 million.

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16. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone’s senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership’s 2007 Equity Incentive Plan (the “Equity Plan”), the majority of which to date were granted in connection with Blackstone’s initial public offering (“IPO”). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2013, the Partnership had the ability to grant 163,217,431 units under the Equity Plan.

For the years ended December 31, 2013, 2012 and 2011 the Partnership recorded compensation expense of \$855.1 million, \$949.6 million, and \$1.4 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of \$33.3 million, \$25.0 million, and \$22.4 million, respectively.

As of December 31, 2013, there was \$1.3 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 1.9 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,153,844,153 as of December 31, 2013. Total outstanding unvested phantom units were 147,169 as of December 31, 2013.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2013 and of changes during the period January 1, 2013 through December 31, 2013 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted- Average Grant Date  Fair Value	Equity Settled Awards		Cash Settled Awards	
Deferred Restricted Common Units and Options			Weighted- Average Grant Date  Fair Value	Phantom Units	Weighted- Average Grant Date  Fair Value	
Unvested Units						
Balance, December 31, 2012	66,591,089	\$ 28.19	20,199,382	\$ 15.76	221,356	\$ 14.89
Granted	4,645,938	20.65	7,245,002	22.56	7,687	22.85
Vested	(21,385,204)	29.91	(6,458,664)	23.77	(78,318)	20.82
Forfeited	(1,794,007)	29.69	(981,581)	17.27	(3,556)	23.70
Balance, December 31, 2013	<u>48,057,816</u>	\$ 26.64	<u>20,004,139</u>	\$ 15.57	<u>147,169</u>	\$ 12.00

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**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of December 31, 2013, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	44,277,748	1.90
Deferred Restricted Blackstone Common Units and Options	16,515,381	2.30
Total Equity-Based Awards	<u>60,793,129</u>	<u>2.00</u>
Phantom Units	<u>146,520</u>	<u>0.03</u>

**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisers and phantom units (cash settled equity-based awards) to other senior and non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's common units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 12.5% annually by employee class, and a per unit discount, ranging from \$0.01 to \$10.33 as a majority of these unvested awards do not contain distribution participation rights. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

The phantom units vest over the assumed service period, which ranges from 2 to 4 years. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 4.2% to 12.5% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$0.6 million, \$0.4 million and \$0.4 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2013, 2012 and 2011, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to 8 years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has

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accounted for the unvested Blackstone Holdings Partnership Units as compensation expense over the vesting period. The fair values have been derived based on the closing price of Blackstone's common units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone common unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 12.5%, based on historical experience.

In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payments to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units, (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations, and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone common units, there was no change in the fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$61.8 million.

**17. RELATED PARTY TRANSACTIONS**

**Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	December 31,	
	2013	2012
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 1,561	\$ 165,322
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	151,493	155,302
Amounts Due from Portfolio Companies and Funds	307,926	259,196
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	259,787	39,507
Management and Performance Fees Due from Non-Consolidated Funds	325,389	343,846
Payments Made on Behalf of Non-Consolidated Entities	133,790	150,317
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	12,098	6,577
	<u>\$1,192,044</u>	<u>\$1,120,067</u>

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	December 31,	
	2013	2012
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$1,235,168	\$1,218,488
Accrual for Potential Repayment of Previously Received Performance Fees	4,270	267,116
Due to Note Holders of Consolidated CLO Vehicles	123,929	191,128
Due to Certain Non-Controlling Interest Holders	—	201,286
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	11,293	12,506
Payable to Affiliates for Consolidated Funds	29,803	81,589
Distributions Received on Behalf of Blackstone Entities	22,815	20,295
Payments Made by Non-Consolidated Entities	9,581	10,236
	<u>\$1,436,859</u>	<u>\$2,002,644</u>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of December 31, 2013 and 2012, such investments aggregated \$1.0 billion and \$939.4 million, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$224.7 million, \$114.1 million and \$109.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$253.9 million, \$254.7 million and \$317.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$3.4 million, \$4.4 million and \$3.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of

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Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2013. See Note 18. “Commitments and Contingencies—Contingencies—Contingent Obligations (Clawback)”.

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman and an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone’s President and Chief Operating Officer, and Jonathan D. Gray, Blackstone’s Global Head of Real Estate and a Director of Blackstone (each such aircraft, “Personal Aircraft”). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with its operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates.

In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman is charged for his and his family’s personal use of Blackstone assets based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone at market rates.

The transactions described herein are not material to the Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone’s wholly owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

During the fourth quarter of 2013 and 2011, the effective tax rate of the corporate taxpayers was reduced due to the adoption of New York State and New York City tax laws for sourcing of revenue for apportionment purposes. This resulted in a reduction of \$20.5 million and \$197.8 million, respectively, due to pre-IPO owners and the others mentioned above. Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients)



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will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$407.4 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. Subsequent to December 31, 2013, payments totaling \$80.6 million were made to certain pre-IPO owners in accordance with the tax receivable agreements and related tax benefits the Partnership received for the 2012 taxable year.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the balance sheet date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Consolidated Statements of Cash Flows.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

**18. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2032. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2013, 2012 and 2011, was \$78.6 million, \$74.8 million and \$72.7 million, respectively. At December 31, 2013 and 2012, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$9.0 million and \$9.4 million, respectively. As of December 31, 2013, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2014	\$ 71,286
2015	67,388
2016	61,299
2017	56,379
2018	54,279
Thereafter	189,150
Total	<u>\$499,781</u>

*Investment Commitments*

Blackstone had \$1.5 billion of investment commitments as of December 31, 2013 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and

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Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$54.6 million as of December 31, 2013 which includes \$25.2 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies**

*Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$4.9 million as of December 31, 2013.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of December 31, 2013 was \$60.3 million.

*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2018. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

During the year ended December 31, 2013, the Blackstone general partners paid a cash clawback obligation of \$89.7 million relating to Blackstone Communications Partners ("BCOM") of which \$70.6 million was paid by Blackstone Holdings and \$19.1 million by current and former Blackstone personnel.

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The following table presents the clawback obligations by segment:

Segment	December 31,					
	2013			2012		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	\$ (5)	\$ 151	\$ 146	\$ 69,302	\$133,852	\$203,154
Real Estate	1,501	518	2,019	32,152	31,223	63,375
Credit	1,213	892	2,105	340	247	587
<b>Total</b>	<u>\$ 2,709</u>	<u>\$ 1,561</u>	<u>\$4,270</u>	<u>\$101,794</u>	<u>\$165,322</u>	<u>\$267,116</u>

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2013, \$420.9 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**19. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the “Plan”) for eligible employees in the United States. For certain administrative employees who are eligible for participation in the Plan, the Partnership makes a non-elective contribution of 2% of such employee’s annual compensation up to a maximum of one thousand six hundred dollars regardless of whether the employee makes any elective contributions to the Plan. In addition, the Partnership will also contribute 50% of certain eligible employee’s contribution to the Plan with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2013, 2012 and 2011, the Partnership incurred expenses of \$1.7 million, \$1.5 million and \$1.4 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom (“U.K. Plan”). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee’s annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2013, 2012 and 2011, the Partnership incurred expenses of \$0.4 million, \$0.4 million and \$0.3 million, respectively, in connection with the U.K. Plan.

**20. REGULATED ENTITIES**

The Partnership has certain entities that are registered broker-dealers that are subject to the minimum net capital requirements of the United States Securities and Exchange Commission (“SEC”). These entities have continuously operated in excess of these requirements. The Partnership also has two entities based in London which are subject to the capital requirements of the U.K. Financial Conduct Authority. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities that are registered as investment advisers with the SEC.

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The regulatory capital requirements referred to above may restrict the Partnership's ability to withdraw capital from its entities. At December 31, 2013, \$24.3 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**21. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management and financial advisory businesses through five segments:

- Private Equity—Blackstone's Private Equity segment comprises its management of private equity funds and certain multi-asset class investment funds.
- Real Estate—Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Hedge Fund Solutions—Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"), an institutional solutions provider utilizing hedge funds across a variety of strategies.
- Credit—Blackstone's Credit segment, which principally includes GSO Capital Partners LP ("GSO"), manages credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.
- Financial Advisory—Blackstone's Financial Advisory segment comprises its financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income ("ENI") represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Management makes operating decisions and assesses the performance of each of Blackstone's business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

## THE BLACKSTONE GROUP L.P.

## Notes to Consolidated Financial Statements

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

The following table presents the financial data for Blackstone's five segments as of and for the years ended December 31, 2013, 2012 and 2011:

	December 31, 2013 and the Year Then Ended					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 368,146	\$ 565,182	\$ 409,321	\$ 398,158	\$ —	\$ 1,740,807
Advisory Fees	—	—	—	—	410,514	410,514
Transaction and Other Fees, Net	96,988	79,675	623	28,586	1,105	206,977
Management Fee Offsets	(5,683)	(22,821)	(3,387)	(40,329)	—	(72,220)
Total Management and Advisory Fees, Net	<u>459,451</u>	<u>622,036</u>	<u>406,557</u>	<u>386,415</u>	<u>411,619</u>	<u>2,286,078</u>
Performance Fees						
Realized						
Carried Interest	329,993	486,773	—	127,192	—	943,958
Incentive Fees	—	45,862	207,735	220,736	—	474,333
Unrealized						
Carried Interest	398,232	1,651,700	—	108,078	—	2,158,010
Incentive Fees	—	(28,753)	7,718	1,107	—	(19,928)
Total Performance Fees	<u>728,225</u>	<u>2,155,582</u>	<u>215,453</u>	<u>457,113</u>	<u>—</u>	<u>3,556,373</u>
Investment Income (Loss)						
Realized	88,026	52,359	27,613	4,098	(1,625)	170,471
Unrealized	161,749	350,201	(9,306)	13,951	739	517,334
Total Investment Income (Loss)	<u>249,775</u>	<u>402,560</u>	<u>18,307</u>	<u>18,049</u>	<u>(886)</u>	<u>687,805</u>
Interest and Dividend Revenue	15,602	21,563	7,605	18,146	8,020	70,936
Other	4,259	3,384	688	527	1,450	10,308
Total Revenues	<u>1,457,312</u>	<u>3,205,125</u>	<u>648,610</u>	<u>880,250</u>	<u>420,203</u>	<u>6,611,500</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	236,120	294,222	136,470	186,514	262,314	1,115,640
Performance Fee Compensation						
Realized						
Carried Interest	38,953	148,837	—	69,411	—	257,201
Incentive Fees	—	23,878	65,793	111,244	—	200,915
Unrealized						
Carried Interest	342,733	566,837	—	57,147	—	966,717
Incentive Fees	—	(15,015)	2,856	508	—	(11,651)
Total Compensation and Benefits	<u>617,806</u>	<u>1,018,759</u>	<u>205,119</u>	<u>424,824</u>	<u>262,314</u>	<u>2,528,822</u>
Other Operating Expenses	<u>124,137</u>	<u>116,391</u>	<u>66,966</u>	<u>96,940</u>	<u>82,205</u>	<u>486,639</u>
Total Expenses	<u>741,943</u>	<u>1,135,150</u>	<u>272,085</u>	<u>521,764</u>	<u>344,519</u>	<u>3,015,461</u>
Economic Income	<u>\$ 715,369</u>	<u>\$2,069,975</u>	<u>\$ 376,525</u>	<u>\$ 358,486</u>	<u>\$ 75,684</u>	<u>\$ 3,596,039</u>
Segment Assets	<u>\$4,444,227</u>	<u>\$7,496,591</u>	<u>\$1,325,631</u>	<u>\$2,381,603</u>	<u>\$781,469</u>	<u>\$16,429,521</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2012 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund		Financial Advisory	Total Segments
			Solutions	Credit		
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 348,594	\$ 551,322	\$ 346,210	\$ 345,277	\$ —	\$ 1,591,403
Advisory Fees	—	—	—	—	357,417	357,417
Transaction and Other Fees, Net	100,080	85,681	188	40,875	295	227,119
Management Fee Offsets	(5,926)	(28,609)	(1,414)	(5,004)	—	(40,953)
Total Management and Advisory Fees, Net	<u>442,748</u>	<u>608,394</u>	<u>344,984</u>	<u>381,148</u>	<u>357,712</u>	<u>2,134,986</u>
Performance Fees						
Realized						
Carried Interest	109,797	165,114	—	52,511	—	327,422
Incentive Fees	—	25,656	83,433	192,375	—	301,464
Unrealized						
Carried Interest	148,381	683,764	—	162,045	—	994,190
Incentive Fees	—	(119)	9,042	(38,234)	—	(29,311)
Total Performance Fees	<u>258,178</u>	<u>874,415</u>	<u>92,475</u>	<u>368,697</u>	<u>—</u>	<u>1,593,765</u>
Investment Income						
Realized	25,823	45,302	7,270	15,611	1,392	95,398
Unrealized	85,337	90,875	8,517	4,769	1,348	190,846
Total Investment Income	111,160	136,177	15,787	20,380	2,740	286,244
Interest and Dividend Revenue	13,556	14,448	2,139	9,330	7,157	46,630
Other	2,417	894	3,816	(1,174)	(804)	5,149
Total Revenues	<u>828,059</u>	<u>1,634,328</u>	<u>459,201</u>	<u>778,381</u>	<u>366,805</u>	<u>4,066,774</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	222,709	271,122	119,731	182,077	235,137	1,030,776
Performance Fee Compensation						
Realized						
Carried Interest	3,679	62,418	—	30,336	—	96,433
Incentive Fees	—	13,060	23,080	103,902	—	140,042
Unrealized						
Carried Interest	58,555	165,482	—	97,562	—	321,599
Incentive Fees	—	(583)	1,317	(45,262)	—	(44,528)
Total Compensation and Benefits	284,943	511,499	144,128	368,615	235,137	1,544,322
Other Operating Expenses	130,845	123,714	57,809	84,488	84,589	481,445
Total Expenses	<u>415,788</u>	<u>635,213</u>	<u>201,937</u>	<u>453,103</u>	<u>319,726</u>	<u>2,025,767</u>
Economic Income	<u>\$ 412,271</u>	<u>\$ 999,115</u>	<u>\$ 257,264</u>	<u>\$ 325,278</u>	<u>\$ 47,079</u>	<u>\$ 2,041,007</u>
Segment Assets	<u>\$4,625,310</u>	<u>\$5,599,759</u>	<u>\$ 876,881</u>	<u>\$2,004,529</u>	<u>\$749,000</u>	<u>\$13,855,479</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2011 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$331,997	\$ 394,778	\$315,863	\$238,547	\$ —	\$1,281,185
Advisory Fees	—	—	—	—	382,240	382,240
Transaction and Other Fees, Net	133,004	109,510	2,798	1,880	321	247,513
Management Fee Offsets	(27,073)	(4,950)	(980)	(390)	—	(33,393)
Total Management and Advisory Fees, Net	<u>437,928</u>	<u>499,338</u>	<u>317,681</u>	<u>240,037</u>	<u>382,561</u>	<u>1,877,545</u>
Performance Fees						
Realized						
Carried Interest	37,393	22,844	—	78,670	—	138,907
Incentive Fees	—	9,629	11,472	67,928	—	89,029
Unrealized						
Carried Interest	33,490	913,418	—	24,610	—	971,518
Incentive Fees	—	3,658	774	(29,360)	—	(24,928)
Total Performance Fees	<u>70,883</u>	<u>949,549</u>	<u>12,246</u>	<u>141,848</u>	<u>—</u>	<u>1,174,526</u>
Investment Income (Loss)						
Realized	44,988	27,972	17,722	11,299	594	102,575
Unrealized	9,476	92,648	(19,031)	(708)	304	82,689
Total Investment Income (Loss)	54,464	120,620	(1,309)	10,591	898	185,264
Interest and Dividend Revenue	13,749	12,902	2,025	3,369	6,799	38,844
Other	1,810	(1,061)	7,902	(853)	(383)	7,415
Total Revenues	<u>578,834</u>	<u>1,581,348</u>	<u>338,545</u>	<u>394,992</u>	<u>389,875</u>	<u>3,283,594</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	217,556	236,771	128,959	128,588	248,695	960,569
Performance Fee Compensation						
Realized						
Carried Interest	1,465	10,103	—	32,047	—	43,615
Incentive Fees	—	4,564	3,498	47,850	—	55,912
Unrealized						
Carried Interest	(2,229)	221,140	—	19,033	—	237,944
Incentive Fees	—	3,106	234	(24,099)	—	(20,759)
Total Compensation and Benefits	<u>216,792</u>	<u>475,684</u>	<u>132,691</u>	<u>203,419</u>	<u>248,695</u>	<u>1,277,281</u>
Other Operating Expenses	<u>120,918</u>	<u>103,859</u>	<u>65,072</u>	<u>49,955</u>	<u>81,538</u>	<u>421,342</u>
Total Expenses	<u>337,710</u>	<u>579,543</u>	<u>197,763</u>	<u>253,374</u>	<u>330,233</u>	<u>1,698,623</u>
Economic Income	<u>\$241,124</u>	<u>\$1,001,805</u>	<u>\$140,782</u>	<u>\$141,618</u>	<u>\$ 59,642</u>	<u>\$1,584,971</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the years ended December 31, 2013, 2012 and 2011:

	December 31, 2013 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 6,611,500	\$ 1,668(a)	\$ 6,613,168
Expenses	\$ 3,015,461	\$ 851,279(b)	\$ 3,866,740
Other Income	\$ —	\$ 402,133(c)	\$ 402,133
Economic Income	\$ 3,596,039	\$ (447,478)(d)	\$ 3,148,561
Total Assets	\$16,429,521	\$ 13,249,085(e)	\$29,678,606

	December 31, 2012 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 4,066,774	\$ (47,333)(a)	\$ 4,019,441
Expenses	\$ 2,025,767	\$ 1,234,914(b)	\$ 3,260,681
Other Income	\$ —	\$ 256,145(c)	\$ 256,145
Economic Income	\$ 2,041,007	\$ (1,026,102)(d)	\$ 1,014,905
Total Assets	\$13,855,479	\$ 15,076,073(e)	\$28,931,552

	Year Ended December 31, 2011		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$3,283,594	\$ (31,018)(a)	\$3,252,576
Expenses	\$1,698,623	\$ 1,689,446(b)	\$3,388,069
Other Income	\$ —	\$ 212,751(c)	\$ 212,751
Economic Income	\$1,584,971	\$ (1,507,713)(d)	\$ 77,258

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues and non-segment related Investment Income, which is included in Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Year Ended December 31,		
	2013	2012	2011
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (5,575)	\$ 43,393	\$ 21,000
Fund Expenses Added in Consolidation	30,727	37,548	30,129
Non-Controlling Interests in Income (Loss) of Consolidated Entities	381,872	203,557	(16,916)
Transaction-Related Other Income (Loss)	(4,891)	(28,353)	178,538
Total Consolidation Adjustments and Reconciling Items	<u>\$402,133</u>	<u>\$256,145</u>	<u>\$212,751</u>



THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements

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

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2013	2012	2011
Economic Income	\$3,596,039	\$ 2,041,007	\$ 1,584,971
Adjustments			
Amortization of Intangibles	(106,643)	(150,148)	(220,865)
IPO and Acquisition-Related Charges	(722,707)	(1,079,511)	(1,269,932)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	381,872	203,557	(16,916)
Total Consolidation Adjustments and Reconciling Items	(447,478)	(1,026,102)	(1,507,713)
Income Before Provision for Taxes	\$3,148,561	\$ 1,014,905	\$ 77,258

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

22. SUBSEQUENT EVENTS

There have been no events since December 31, 2013 that require recognition or disclosure in the Consolidated Financial Statements.

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues	\$1,246,473	\$1,440,470	\$ 1,216,845	\$2,709,380
Expenses	835,101	914,762	786,405	1,330,472
Other Income	67,210	40,966	87,952	206,005
Income Before Provision for Taxes	\$ 478,582	\$ 566,674	\$ 518,392	\$1,584,913
Net Income	\$ 427,589	\$ 510,592	\$ 460,915	\$1,493,823
Net Income Attributable to The Blackstone Group L.P.	\$ 167,635	\$ 211,148	\$ 171,164	\$ 621,255
Net Income Per Common Unit—Basic and Diluted				
Common Units—Basic	\$ 0.29	\$ 0.36	\$ 0.29	\$ 1.05
Common Units—Diluted	\$ 0.29	\$ 0.36	\$ 0.29	\$ 1.04
Distributions Declared (a)	\$ 0.42	\$ 0.30	\$ 0.23	\$ 0.23

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Revenues	\$952,036	\$627,203	\$ 1,223,089	\$1,217,113
Expenses	783,793	739,819	851,390	885,679
Other Income (Loss)	288,142	248,230	(135,960)	(144,267)
Income Before Provision for Taxes	<u>\$456,385</u>	<u>\$135,614</u>	<u>\$ 235,739</u>	<u>\$ 187,167</u>
Net Income	<u>\$417,632</u>	<u>\$ 94,277</u>	<u>\$ 196,502</u>	<u>\$ 121,471</u>
Net Income (Loss) Attributable to The Blackstone Group L.P.	<u>\$ 58,325</u>	<u>\$ (74,964)</u>	<u>\$ 128,824</u>	<u>\$ 106,413</u>
Net Income (Loss) Per Common Unit—Basic and Diluted				
Common Units—Basic	<u>\$ 0.12</u>	<u>\$ (0.14)</u>	<u>\$ 0.24</u>	<u>\$ 0.19</u>
Common Units—Diluted	<u>\$ 0.11</u>	<u>\$ (0.14)</u>	<u>\$ 0.24</u>	<u>\$ 0.19</u>
Distributions Declared (a)	<u>\$ 0.22</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>

(a) Distributions declared reflects the calendar date of the declaration of each distribution.

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ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
**(Dollars in Thousands)**

	December 31, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 831,998	\$ —	\$ —	\$ 831,998
Cash Held by Blackstone Funds and Other	251,554	794,328	—	1,045,882
Investments	9,739,140	12,493,961	(503,578)	21,729,523
Accounts Receivable	507,612	380,744	—	888,356
Reverse Repurchase Agreements	148,984	—	—	148,984
Due from Affiliates	1,138,002	108,131	(54,089)	1,192,044
Intangible Assets, Net	560,748	—	—	560,748
Goodwill	1,787,392	—	—	1,787,392
Other Assets	254,884	29,588	—	284,472
Deferred Tax Assets	1,209,207	—	—	1,209,207
<b>Total Assets</b>	<u>\$16,429,521</u>	<u>\$ 13,806,752</u>	<u>\$ (557,667)</u>	<u>\$29,678,606</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,664,305	\$ 8,802,199	\$ —	\$10,466,504
Due to Affiliates	1,261,562	249,702	(74,405)	1,436,859
Accrued Compensation and Benefits	2,132,939	—	—	2,132,939
Securities Sold, Not Yet Purchased	76,195	—	—	76,195
Repurchase Agreements	316,352	—	—	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	299,813	572,273	—	872,086
<b>Total Liabilities</b>	<u>5,751,166</u>	<u>9,624,174</u>	<u>(74,405)</u>	<u>15,300,935</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>1,950,442</u>	<u>—</u>	<u>1,950,442</u>
<b>Partners' Capital</b>				
Partners' Capital	6,002,592	495,229	(495,229)	6,002,592
Appropriated Partners' Capital	—	300,708	—	300,708
Accumulated Other Comprehensive Income	1,230	2,236	—	3,466
Non-Controlling Interests in Consolidated Entities	1,018,117	1,433,963	11,967	2,464,047
Non-Controlling Interests in Blackstone Holdings	3,656,416	—	—	3,656,416
<b>Total Partners' Capital</b>	<u>10,678,355</u>	<u>2,232,136</u>	<u>(483,262)</u>	<u>12,427,229</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$16,429,521</u>	<u>\$ 13,806,752</u>	<u>\$ (557,667)</u>	<u>\$29,678,606</u>

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition—(Continued)**  
**(Dollars in Thousands)**

	December 31, 2012			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 709,502	\$ —	\$ —	\$ 709,502
Cash Held by Blackstone Funds and Other	154,555	1,249,856	—	1,404,411
Investments	7,324,538	14,004,268	(481,536)	20,847,270
Accounts Receivable	402,395	235,769	—	638,164
Reverse Repurchase Agreements	248,018	—	—	248,018
Due from Affiliates	1,114,835	42,683	(37,451)	1,120,067
Intangible Assets, Net	598,535	—	—	598,535
Goodwill	1,703,602	—	—	1,703,602
Other Assets	313,888	63,618	(1,134)	376,372
Deferred Tax Assets	1,285,611	—	—	1,285,611
<b>Total Assets</b>	<u>\$13,855,479</u>	<u>\$ 15,596,194</u>	<u>\$ (520,121)</u>	<u>\$28,931,552</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,677,081	\$ 11,374,323	\$ —	\$13,051,404
Due to Affiliates	1,711,003	358,448	(66,807)	2,002,644
Accrued Compensation and Benefits	1,254,978	—	—	1,254,978
Securities Sold, Not Yet Purchased	226,425	—	—	226,425
Repurchase Agreements	142,266	—	—	142,266
Accounts Payable, Accrued Expenses and Other Liabilities	365,005	674,454	(571)	1,038,888
<b>Total Liabilities</b>	<u>5,376,758</u>	<u>12,407,225</u>	<u>(67,378)</u>	<u>17,716,605</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>1,556,185</u>	<u>—</u>	<u>1,556,185</u>
<b>Partners' Capital</b>				
Partners' Capital	4,955,649	455,309	(455,309)	4,955,649
Appropriated Partners' Capital	—	509,028	—	509,028
Accumulated Other Comprehensive Income	1,047	1,123	—	2,170
Non-Controlling Interests in Consolidated Entities	773,669	667,324	2,566	1,443,559
Non-Controlling Interests in Blackstone Holdings	2,748,356	—	—	2,748,356
<b>Total Partners' Capital</b>	<u>8,478,721</u>	<u>1,632,784</u>	<u>(452,743)</u>	<u>9,658,762</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$13,855,479</u>	<u>\$ 15,596,194</u>	<u>\$ (520,121)</u>	<u>\$28,931,552</u>

(a) The Consolidated Blackstone Funds consisted of the following:

- Blackstone Distressed Securities Fund L.P.
- Blackstone Hedged Equity Fund L.P.\*
- Blackstone Market Opportunities Fund L.P.
- Blackstone Strategic Alliance Fund L.P.
- Blackstone Strategic Alliance Fund II L.P.
- Blackstone Strategic Equity Fund L.P.
- Blackstone Value Recovery Fund L.P.
- Blackstone/GSO Secured Trust Ltd.
- BTD CP Holdings, LP

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GSO Legacy Associates II LLC  
GSO Legacy Associates LLC  
Shanghai Blackstone Equity Investment Partnership L.P.  
BREP Edens Investment Partners L.P.\*\*  
Private equity side-by-side investment vehicles  
Real estate side-by-side investment vehicles  
Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles  
\* Consolidated as of December 31, 2012 only.  
\*\* Consolidated as of December 31, 2013 only.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### Management's Report on Internal Control Over Financial Reporting

Management of The Blackstone Group L.P. and subsidiaries ("Blackstone") is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone's internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Blackstone's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2013 based on the framework established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Blackstone's internal control over financial reporting as of December 31, 2013 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone's financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2013, which is included herein.

### ITEM 9B. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA"), which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein Exhibit 99.1 of each of our Quarterly Reports on Form 10-Q filed on May 8, 2013, August 8, 2013 and November 8, 2013 as well as Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to us by Traveport Limited, which may be considered our affiliate.

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### PART III.

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Directors and Executive Officers of Blackstone Group Management L.L.C.

The directors and executive officers of Blackstone Group Management L.L.C. as of the date of this filing, are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen A. Schwarzman	67	Founder, Chairman and Chief Executive Officer and Director
Hamilton E. James	63	President, Chief Operating Officer and Director
J. Tomilson Hill	65	Vice Chairman and Director
Jonathan D. Gray	44	Global Head of Real Estate and Director
Laurence A. Tosi	46	Chief Financial Officer
John G. Finley	57	Chief Legal Officer
Joan Solotar	49	Senior Managing Director—External Relations and Strategy
Richard H. Jenrette	84	Director
Jay O. Light	72	Director
The Right Honorable Brian Mulroney	74	Director
William G. Parrett	68	Director
Rochelle B. Lazarus	66	Director

**Stephen A. Schwarzman** is the Chairman and Chief Executive Officer of Blackstone and the Chairman of the board of directors of our general partner. Mr. Schwarzman was elected Chairman of the board of directors of our general partner effective March 20, 2007. Mr. Schwarzman is a founder of Blackstone and has been involved in all phases of the firm's development since its founding in 1985. Mr. Schwarzman began his career at Lehman Brothers, where he was elected Managing Director in 1978. He was engaged principally in the firm's mergers and acquisitions business from 1977 to 1984, and served as Chairman of the firm's Mergers & Acquisitions Committee in 1983 and 1984. Mr. Schwarzman is a member of The Council on Foreign Relations, The Business Council, The Business Roundtable, and The International Business Council of the World Economic Forum. He serves on the boards of The New York Public Library, The Asia Society, The Board of Directors of The New York City Partnership and The Advisory Board of the School of Economics and Management at Tsinghua University, Beijing. He is a Trustee of The Frick Collection in New York City and Chairman Emeritus of the Board of Directors of The John F. Kennedy Center for the Performing Arts. Mr. Schwarzman was awarded the Légion d'Honneur of France in 2007 and promoted to Officier by President Nicolas Sarkozy in 2010. Mr. Schwarzman holds a BA from Yale University and an MBA from Harvard Business School. He has served as an adjunct professor at the Yale School of Management and on the Harvard Business School Board of Dean's Advisors. In 2012, he was awarded an Honorary Degree from Quinnipiac University.

**Hamilton E. James** is President, Chief Operating Officer of Blackstone and a member of the board of directors of our general partner. Mr. James was elected to the board of directors of our general partner effective March 20, 2007. Prior to joining Blackstone in 2002, Mr. James was Chairman of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of its Executive Board since the acquisition of Donaldson, Lufkin & Jenrette, or "DLJ," by Credit Suisse First Boston in 2000. Prior to the acquisition of DLJ, Mr. James was the Chairman of DLJ's Banking Group, responsible for all the firm's investment banking and merchant banking activities and a member of its Board of Directors. Mr. James joined DLJ in 1975 as an Investment Banking associate. He became head of DLJ's global mergers and acquisitions group in 1982, founded DLJ Merchant Banking, Inc. in 1985, and was named Chairman of the Banking Group in 1995 with responsibility for all of the firm's investment banking, alternative asset management and emerging market sales and trading activities. Mr. James is a Director of Costco Wholesale Corporation and was, until March 1, 2013, a Director of Swift River Investments, Inc., and has served on a number of other corporate boards. Mr. James is

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Trustee of The Metropolitan Museum of Art, Trustee and member of The Executive Committee of the Second Stage Theatre, Vice Chairman of Trout Unlimited's Coldwater Conservations Fund, Trustee of Woods Hole Oceanographic Institute, Advisory Board Member of the Montana Land Reliance, Trustee of the Wildlife Conservation Society and Chairman Emeritus of the Board of Trustees of American Ballet Theatre. Mr. James received a BA from Harvard College and an MBA from Harvard Business School.

**J. Tomilson Hill** is President and Chief Executive Officer of Blackstone Alternative Asset Management ("BAAM"), a Vice Chairman of The Blackstone Group L.P. and a member of the board of directors of our general partner. Mr. Hill was elected to the board of directors of our general partner effective March 20, 2007. Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role as Chief Executive Officer of BAAM. In his current capacity, Mr. Hill is responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of its Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc. Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee and serves on the Council's Board of Directors, and is a member of the Board of Directors of Lincoln Center Theater, where he is Chairman. He serves on the Board of the Telluride Foundation, the Advantage Testing Foundation, and of Our Lady Queen of Angels School, a parochial school (K-8th grade) in Spanish Harlem. He is a member of the Board of Directors of OpenPeak Inc. and Advantage Testing, Inc.

**Jonathan D. Gray** is Global Head of Real Estate and a member of the board of directors of our general partner. Mr. Gray was elected to the board of directors of our general partner effective February 24, 2012. He also sits on the firm's Management and Executive Committees. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with more than \$50 billion in investor capital under management. Blackstone's portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe and Asia. Major holdings include Hilton Worldwide, Equity Office Properties, Brixmor shopping centers and London's Broadgate office complex. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania, where he graduated magna cum laude and was elected to Phi Beta Kappa. He currently serves as a board member of the Pension Real Estate Association and Trinity School and is Chairman of the Board of Harlem Village Academies. Mr. Gray and his wife, Mindy, recently established the Basser Research Center at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused breast and ovarian cancers.

**Laurence A. Tosi** is Blackstone's Chief Financial Officer and a member of the firm's Management and Executive Committees. Before joining Blackstone in 2008, Mr. Tosi was a Managing Partner and the Chief Operating Officer of Global Markets and Investment Banking at Merrill Lynch & Co., a position which he held since 2007. From 2004 through 2007, Mr. Tosi was Merrill Lynch's Finance Director and Principal Accounting Officer responsible for global finance, including worldwide accounting, regulatory reporting, budgeting and corporate business development. Prior to that, Mr. Tosi was Chief Financial Officer and Head of Merrill Lynch business finance from 2002 to 2004. He was also global Head of Corporate Development from 1999 to 2007 where he managed many of the firm's strategic acquisitions and investments. Mr. Tosi joined Merrill Lynch in 1999 prior to which he was Director of Business Development for General Electric Company's NBC division. Mr. Tosi received a BA, a JD and an MBA from Georgetown University where he currently serves on the University's Board of Regents.

**John G. Finley** is Chief Legal Officer of Blackstone and a member of the firm's Executive Committee. Before joining Blackstone in 2010, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years



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where he was most recently a member of that law firm's Executive Committee and Head of Global Mergers & Acquisitions. Mr. Finley is a member of the Advisory Board of the Harvard Law School Program on Corporate Governance and the Board of Advisors of the University of Pennsylvania Institute of Law and Economics and has served as a Trustee of the Jewish Board of Family and Children Services. Mr. Finley received a BS in Economics and a BA in History from the University of Pennsylvania, and a JD from Harvard Law School.

**Joan Solotar** is a Senior Managing Director, Head of the External Relations and Strategy Group of Blackstone and a member of the firm's Management and Executive Committees. Ms. Solotar has management responsibility for shareholder relations and public affairs and also guides the firm on analyzing strategic development opportunities. Before joining Blackstone in 2007, Ms. Solotar was with Banc of America Securities where she was a Managing Director and Head of Equity Research. She started her career in equity research at The First Boston Corporation and prior to joining Bank of America was part of the financial services team at Donaldson, Lufkin & Jenrette and later with Credit Suisse First Boston as a Managing Director. Ms. Solotar was ranked each year from 1995 to 2002 in the Brokers and Asset Management category on the Institutional Investor All-America Research Team, and consistently ranked highly in the Greenwich Survey of portfolio managers. She also served as Chairperson of the Research Committee for the Securities Industry Association. Ms. Solotar received a BS in Management Information Systems at the State University of New York at Albany and an MBA in Finance at New York University. She is currently on the Board of Directors of the East Harlem Tutorial Program.

**Richard H. Jenrette** is a member of the board of directors of our general partner. Mr. Jenrette was elected to the board of directors of our general partner effective July 14, 2008. Mr. Jenrette is the retired former Chairman and Chief Executive Officer of The Equitable Companies Incorporated and the co-founder and retired Chairman and Chief Executive Officer of Donaldson, Lufkin & Jenrette, Inc. He is also a former Chairman of The Securities Industry Association and has served in the past as a director or trustee of The McGraw-Hill Companies, Advanced Micro Devices Inc., the American Stock Exchange, The Rockefeller Foundation, The Duke Endowment, the University of North Carolina, New York University and The National Trust for Historic Preservation.

**Rochelle B. Lazarus** is a member of the board of directors of our general partner. Ms. Lazarus was elected to the board of directors of our general partner effective July 9, 2013. Ms. Lazarus is Chairman Emeritus of Ogilvy & Mather and served as Chairman of that company from 1997 to June 2012. Prior to becoming Chief Executive Officer and Chairman, she also served as president of O&M Direct North America, Ogilvy & Mather New York, and Ogilvy & Mather North America. Ms. Lazarus currently serves on the boards of Merck & Co., Inc., General Electric (where she chairs the Governance and Public Affairs Committee), the Financial Industry Regulatory Authority (FINRA), World Wildlife Fund and Lincoln Center for the Performing Arts. She is a trustee of the New York Presbyterian Hospital and is a member of the Board of Overseers of Columbia Business School. She is also a member of the Council on Foreign Relations and Women's Forum, Inc.

**Jay O. Light** is a member of the board of directors of our general partner. Mr. Light was elected to the board of directors of our general partner effective September 18, 2008. Mr. Light is the Dean Emeritus of Harvard Business School and the George F. Baker Professor of Administration Emeritus. Prior to that, Mr. Light was the Dean of Harvard Business School from 2006 to 2010. Before becoming the Dean of Harvard Business School, Mr. Light was Senior Associate Dean, Chairman of the Finance Area, and a professor teaching Investment Management, Capital Markets, and Entrepreneurial Finance for 30 years. Mr. Light is a director of the Harvard Management Company, a director of Partners HealthCare (the Mass General and Brigham & Women's Hospitals) and chairman of its Investment Committee, a member of the Investment Committee of several endowments, a director of several private firms, and an advisor/trustee to several corporate and institutional pools of capital. In prior years until 2008, Mr. Light was a Trustee of the GMO Trusts, a family of mutual funds for institutional investors.

**The Right Honorable Brian Mulroney** is a member of the board of directors of our general partner. Mr. Mulroney was elected to the board of directors of our general partner effective June 21, 2007. Mr. Mulroney

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is a senior partner and international business consultant for the Montreal law firm, Norton Rose Canada LLP. Prior to joining Norton Rose Canada, Mr. Mulroney was the eighteenth Prime Minister of Canada from 1984 to 1993 and leader of the Progressive Conservative Party of Canada from 1983 to 1993. He served as the Executive Vice President of the Iron Ore Company of Canada and President beginning in 1977. Prior to that, Mr. Mulroney served on the Cliché Commission of Inquiry in 1974. Mr. Mulroney is a Senior Advisor of Global Affairs at Barrick Gold Corporation. He also serves on Barrick's board of directors and is the Chairman of their International Advisory Board. Mr. Mulroney is also a member of the Board of Directors of Quebecor Inc., Quebecor Media Inc. and Wyndham Worldwide Corporation. In prior years until 2009, Mr. Mulroney was a member of the Board of Directors of Archer Daniels Midland Company and Quebecor World Inc.

*William G. Parrett* is a member of the board of directors of our general partner. Mr. Parrett was elected to the board of directors of our general partner effective November 9, 2007. Until May 31, 2007, Mr. Parrett served as the Chief Executive Officer of Deloitte Touche Tohmatsu. Certain of the member firms of Deloitte Touche Tohmatsu or their subsidiaries and affiliates provide professional services to The Blackstone Group L.P. or its affiliates. Mr. Parrett co-founded the Global Financial Services Industry practice of Deloitte and served as its first Chairman. Currently, Mr. Parrett is a member of the board of directors of the United States Council for International Business. Mr. Parrett is a member of the board of directors of Thermo Fisher Scientific Inc., Eastman Kodak Company and UBS AG, and is Chairman of the audit committee of each of these companies as well as the Corporate Responsibility Committee of UBS and the Strategy and Finance Committee of Thermo Fisher. He is also a member of the Board of Directors of iGATE and serves on the company's Nominating and Corporate Governance Committee and Compensation Committee. He is a member of the Board of Trustees of Carnegie Hall and a past Chairman of the Board of Trustees of United Way Worldwide.

### Board Composition

Our general partner seeks to ensure that the board of directors of our general partner is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the board of directors of our general partner, Mr. Schwarzman takes into account (a) minimum individual qualifications, such as strength of character, mature judgment, industry knowledge or experience and an ability to work collegially with the other members of the board of directors, and (b) all other factors he considers appropriate.

After conducting an initial evaluation of a candidate, Mr. Schwarzman will interview that candidate if he believes the candidate might be suitable to be a director and may also ask the candidate to meet with other directors and senior management. If, following such interview and any consultations with senior management, Mr. Schwarzman believes a candidate would be a valuable addition to the board of directors, he will appoint that individual to the board of directors of our general partner.

When considering whether the board's directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the board to satisfy its oversight responsibilities effectively in light of the Partnership's business and structure, Mr. Schwarzman focused on the information described in each of the board members' biographical information set forth above. In particular, with regard to Mr. Jenrette, Mr. Schwarzman considered his extensive financial background and experience in a variety of senior leadership roles, including his roles at Donaldson, Lufkin & Jenrette, Inc. and The Equitable Companies Incorporated. With regard to Ms. Lazarus, Mr. Schwarzman considered her extensive business background and her management experience in a variety of senior leadership roles at Ogilvy & Mather. With regard to Mr. Light, Mr. Schwarzman considered his distinguished career as a professor and dean at Harvard Business School with extensive knowledge and expertise of the investment management and capital markets industries. With regard to Mr. Mulroney, Mr. Schwarzman considered his distinguished career of government service, especially his service as the Prime Minister of Canada. With regard to Mr. Parrett, Mr. Schwarzman considered his significant experience, expertise and background with regard to accounting matters and his leadership role at Deloitte. With regard to Messrs.

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James, Hill and Gray, Mr. Schwarzman considered their leadership and extensive knowledge of our business and operations gained through their years of service at our firm and with regard to himself, Mr. Schwarzman considered his role as founder and long-time chief executive officer of our firm.

### Partnership Management and Governance

Our general partner, Blackstone Group Management L.L.C., manages all of our operations and activities. Our general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business. Our partnership agreement provides that our general partner in managing our operations and activities is entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners, and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Blackstone Group Management L.L.C. is wholly owned by our senior managing directors and controlled by our founder, Mr. Schwarzman. Our common unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of our common unitholders are limited as set forth in our partnership agreement and in the Delaware Limited Partnership Act.

Blackstone Group Management L.L.C. does not receive any compensation from us for services rendered to us as our general partner. Our general partner is reimbursed by us for all expenses it incurs in carrying out its activities as general partner of the Partnership, including compensation paid by the general partner to its directors and the cost of directors and officers liability insurance obtained by the general partner.

The limited liability company agreement of Blackstone Group Management L.L.C. establishes a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Mr. Schwarzman will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner holding a majority in interest in our general partner. We refer to the board of directors of Blackstone Group Management L.L.C. as the "board of directors of our general partner." The board of directors of our general partner has a total of nine members including five members who are not officers or employees, and are otherwise independent, of Blackstone and its affiliates, including our general partner. These directors, namely Messrs. Jenrette, Light, Mulrone and Parrett and Ms. Lazarus, to whom we refer as independent directors, meet the independence standards established by the New York Stock Exchange and SEC rules.

The board of directors of our general partner has three standing committees: the audit committee, the conflicts committee and the executive committee.

**Audit Committee** . The audit committee consists of Messrs. Parrett (Chairman), Jenrette and Light and Ms. Lazarus. The purpose of the audit committee is to assist the board of directors of Blackstone Group Management L.L.C. in overseeing and monitoring (a) the quality and integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) our independent registered public accounting firm's qualifications and independence, and (d) the performance of our independent registered public accounting firm. The members of the audit committee meet the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the New York Stock Exchange listing standards applicable to audit committees. The board of directors of our general partner has determined that Mr. Parrett is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Parrett serves on the audit committees of four public companies, including Blackstone. The board of directors of our general partner determined at its January 2014 meeting that upon consideration of all relevant facts and circumstances

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known to the board of directors, Mr. Parrett's simultaneous service on the audit committees of four public companies does not impair his ability to effectively serve on the audit committee of the board of directors of our general partner. The audit committee has a charter, which is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

**Conflicts Committee** . The conflicts committee consists of Messrs. Parrett, Jenrette and Light. The conflicts committee reviews specific matters that our general partner's board of directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of any conflict of interest submitted to it is fair and reasonable to the Partnership. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us and not a breach by us of any duties we may owe to our common unitholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "—Item 13. Certain Relationships and Related Transactions, and Director Independence", and may establish guidelines or rules to cover specific categories of transactions. The members of the conflicts committee meet the independence standards for service on an audit committee of a board of directors pursuant to federal and New York Stock Exchange rules relating to corporate governance matters.

**Executive Committee** . The executive committee of the board of directors of Blackstone Group Management L.L.C. consists of Messrs. Schwarzman, James, Hill and Gray. The board of directors has delegated all of the power and authority of the full board of directors to the executive committee to act when the board of directors is not in session.

### Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics and a Code of Ethics for Financial Professionals, which apply to our principal executive officer, principal financial officer and principal accounting officer. Each of these codes is available on our internet website at <http://ir.blackstone.com/governance.cfm>. We intend to disclose any amendment to or waiver of the Code of Ethics for Financial Professionals and any waiver of our Code of Business Conduct and Ethics on behalf of an executive officer or director either on our Internet website or in an 8-K filing.

### Corporate Governance Guidelines

The board of directors of our general partner has a governance policy, which addresses matters such as the board of directors' responsibilities and duties and the board of directors' composition and compensation. The governance policy is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

### Communications to the Board of Directors

The non-management members of our general partner's board of directors meet at least quarterly. The presiding director at these non-management board member meetings is Mr. Parrett. All interested parties, including any employee or unitholder, may send communications to the non-management members of our general partner's board of directors by writing to: The Blackstone Group L.P., Attn: Audit Committee, 345 Park Avenue, New York, New York 10154.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the executive officers and directors of our general partner, and persons who own more than ten percent of a registered class of the Partnership's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish the Partnership with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2013, such persons complied with all such filing requirements.

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### ITEM 11. EXECUTIVE COMPENSATION

#### Compensation Discussion and Analysis

##### *Overview of Compensation Philosophy and Program*

The intellectual capital collectively possessed by our senior managing directors (including our named executive officers) and other employees is the most important asset of our firm. We invest in people. We hire qualified people, train them, encourage them to provide their best thinking to the firm for the benefit of the investors in our funds and our advisory clients, and compensate them in a manner designed to retain and motivate them and align their interests with those of the investors in the funds we manage and the clients we advise.

Our overriding compensation philosophy for our senior managing directors and certain other employees is that compensation should be composed primarily of (a) annual cash payments tied to the performance of the applicable business unit(s) in which such employee works, (b) performance interests (comprised primarily of carried interest and incentive fee interests) tied to the performance of the investments made by the funds in the business unit in which such employee works or for which he or she has responsibility, (c) deferred equity awards reflecting the value of our common units, and (d) additional cash payments and deferred equity awards tied to extraordinary performance of such employee or other circumstances (for example, if there has been a change of role or responsibility). We believe base salary should represent a significantly lesser component of total compensation. We believe the appropriate combination of annual cash payments and performance interests or deferred equity awards encourages our senior managing directors and other employees to focus on the underlying performance of our investment funds and objectives of our advisory clients, as well as the overall performance of the firm and interests of our common unitholders. To that end, the primary form of compensation to our senior managing directors and other employees who work in our carry fund operations is generally a combination of annual cash payments related to the performance of those carry fund operations, carried interest or incentive fee interests and, in specified cases, deferred equity awards. Along the same lines, the primary form of compensation to our senior managing directors and other employees who do not work in our carry fund operations is generally a combination of annual cash payments tied to the performance of the applicable business unit in which such employee works and deferred equity awards which are generally a prescribed percentage of their annual cash payments under our Deferred Compensation Plan.

Employees at higher total compensation levels are generally targeted to receive a greater percentage of their total compensation payable in participation in performance interests, cash bonus amounts and deferred equity awards and a lesser percentage in cash compared to employees who are paid less. We believe that the proportion of compensation that is “at risk” (that is, performance interests and deferred equity awards) should increase as an employee’s level of responsibility rises. In general, our named executive officers with the highest level of responsibility have the lowest percentage of their compensation fixed in the form of base salary and the highest percentage of their compensation at risk.

Our compensation program includes significant elements that discourage excessive risk taking and aligns the compensation of our employees with the long-term performance of the firm. For example, notwithstanding the fact that for accounting purposes we accrue compensation for the Performance Plans (as defined below) related to our carry funds as increases in the carrying value of the portfolio investments are recorded in those carry funds, we only make cash payments related to carried interest to our employees when profitable investments have been realized and cash is distributed first to the investors in our funds, followed by the firm and only then to employees of the firm. Moreover, if a carry fund fails to achieve specified investment returns due to diminished performance of later investments, our Performance Plans entitle us to “clawback” carried interest payments previously made to an employee for the benefit of the limited partner investors in that fund, and we escrow a portion of all carried interest payments made to employees to help fund their potential future “clawback” obligations, all of which further discourages excessive risk-taking by our employees. Similarly, for our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund’s portfolio of investments has profitably appreciated in value (in most cases

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above a specified level) during the applicable period. In addition, and as noted below with respect to our named executive officers, the requirement that we have our professional employees invest in certain of the funds they manage directly aligns the interests of our professionals and our investors. In most cases, these investments represent a significant percentage of employees' after-tax compensation. Lastly, because our deferred equity awards have significant vesting or deferral provisions, the actual amount of compensation realized by the recipient will be tied directly to the long-term performance of our common units.

We believe our current compensation and benefit allocations for senior professionals are best in class and are consistent with companies in the alternative asset management and financial advisory industries. We do not generally rely on compensation surveys or compensation consultants. Our senior management periodically reviews the effectiveness and competitiveness of our compensation program, and such reviews may in the future involve the assistance of independent consultants.

*Personal Investment Obligations* . As part of our compensation philosophy and program, we require our named executive officers to personally invest their own capital in and alongside the funds that we manage. We believe that this strengthens the alignment of interests among our executive officers and the investors in those investment funds. (See “—Item 13. Certain Relationships and Related Transactions, and Director Independence—Side-By-Side and Other Investment Transactions”.) In determining compensation for our named executive officers, we do not take into account the gains or losses attributable to the personal investments by our named executive officers in our investment funds.

We also require each of our named executive officers to hold at least 25% of their vested units throughout their employment with the firm and thereafter until the expiration of the covenants included in their respective non-competition and non-solicitation agreements, which are described below. We believe the continued ownership by our named executive officers of significant amounts of our equity through their direct and indirect interests in the Blackstone Holdings Partnerships affords significant alignment of interests with our common unitholders.

### *Compensation Elements for Named Executive Officers*

The key elements of the compensation of the executive officers listed in the tables below (“named executive officers”) for 2013 were base compensation, which is composed of base salary, cash bonus and equity-based compensation, and performance compensation, which is composed of carried interest and incentive fee allocations:

1. Base Salary . Each named executive officer received a \$350,000 annual base salary in 2013, which equals the total yearly partnership drawings that were received by each of our senior managing directors prior to our initial public offering in 2007. In keeping with historical practice, we continue to pay this amount as a base salary.

2. Annual Cash Payments / Deferred Equity Awards . Since our initial public offering, Mr. Schwarzman has not received any compensation other than the \$350,000 annual salary described above and the actual realized carried interest gain distributions or incentive fees he may receive in respect of his participation in the carried interest or incentive fees earned from our funds through our Performance Plans described below. We believe that having Mr. Schwarzman's compensation largely based on ownership of a portion of the carried interest or incentive fees earned from our funds aligns his interests with those of the investors in our funds and our common unitholders.

Each of our named executive officers other than Mr. Schwarzman received annual cash payments in 2013 in addition to their base salary. These cash payments included participation interests in the earnings of the firm's various investment and advisory businesses. Mr. Hill, who has primary responsibility for Hedge Fund Solutions, our funds of hedge funds operation, also received cash payments that were based upon the performance of that

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business. Indicative participation interests for each year were disclosed to a named executive officer at the beginning of such year and represented estimates of the expected percentage participation that such named executive officer may have had in the relevant business unit(s)' earnings for that same year. However, the ultimate cash payments paid to the named executive officers at the end of the year in respect of their participation interests were determined in the discretion of Mr. Schwarzman, in consultation with Mr. James, as described below. Earnings for a business unit are calculated based on the annual operating income of that business unit and are generally a function of the performance of such business unit, which is evaluated by Mr. Schwarzman and subject to modification by Mr. Schwarzman or by the firm in its sole discretion. The ultimate cash payment amounts were based on (a) the prior and anticipated performance of the named executive officer, (b) the prior and anticipated performance of the segments and product lines in which the officer serves and for which he has responsibility, and (c) the estimated participation interests given to the officer at the beginning of the year in respect of the investments to be made in that year. We make annual cash payments in the first quarter of the ensuing year to reward individual performance for the prior year. The ultimate cash payments that are made are fully discretionary as further discussed below under “—Determination of Incentive Compensation”.

Certain key personnel participate in our Deferred Compensation Plan. For 2013, Mr. Hill was the only named executive officer to participate in our Deferred Compensation Plan. The Deferred Compensation Plan provides for the automatic, mandatory deferral of a portion of each participant's annual cash payment. The portion deferred is prescribed under the Deferred Compensation Plan. By deferring a portion of a participant's compensation for up to four years, the Deferred Compensation Plan acts as an employment retention mechanism and thereby enhances the alignment of interests between such participant and the firm. (See “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Deferred Compensation Plan”.) Many asset managers that are public companies utilize deferred compensation plans as a means of retaining and motivating their professionals, and we believe that it is in the interest of our common unitholders to do the same for our personnel. On January 13, 2014, Mr. Hill received an equity award under the Deferred Compensation Plan of deferred restricted common units in respect of his service in 2013, which was approximately equal to (and paid in lieu of) 52% of the annual cash payment that he would have otherwise been paid, as described below. Mr. Hill is also eligible to receive a premium award in an amount equal to the specified percentage of his deferred amount as described below under “Narrative to Nonqualified Deferred Compensation for 2013 Table.” On January 13, 2014, Mr. Hill received an additional equity award of deferred restricted common units as a premium award under the Deferred Compensation Plan, which was equal to 20% of his deferral amount. Both these awards are reflected in Mr. Hill's 2013 stock awards in the Summary Compensation Table and in the Grants of Plan-Based Awards Table in 2013.

In 2013, Mr. Tosi received a discretionary award of 34,734 Blackstone Holdings Partnership Units and Mr. Finley received a discretionary award of 11,578 Blackstone Holdings Partnership Units, in each case under the 2007 Equity Incentive Plan in respect of his service in 2012. This award is reflected in the named executive officers' 2012 stock awards in the Summary Compensation Table.

3. Participation in Performance Fees. During 2013, all of our named executive officers participated in the carried interest of our carry funds or the incentive fees of our funds that pay incentive fees through their participation interests in the carry or incentive fee pools generated by these funds. The carry or incentive fee pool with respect to each fund in a given year is funded by a fixed percentage of the total amount of carried interest or incentive fees earned by Blackstone for such fund in that year. We refer to these pools and employee participation therein as our “Performance Plans” and payments made thereunder as performance payments. Because the aggregate amount of performance payments payable through our Performance Plans is directly tied to the performance of the funds, we believe this fosters a strong alignment of interests among the investors in those funds and these named executive officers, and therefore benefits our unitholders. In addition, most alternative asset managers, including several of our competitors, use participation in carried interest or incentive fees as a central means of compensating and motivating their professionals, and we believe that we must do the same in order to attract and retain the most qualified personnel. For purposes of our financial statements, we are treating the income allocated to all our personnel who have participation interests in the carried interest or

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incentive fees generated by our funds as compensation, and the amounts of carried interest and incentive fees earned by named executive officers are reflected as “All Other Compensation” in the Summary Compensation Table. Cash payments in respect of our Performance Plans for each named executive officer are determined on the basis of the percentage participation in the relevant investments previously allocated to that named executive officer, which percentage participations are established in January in each year in respect of the investments to be made in that year. The percentage participation for a named executive officer may vary from year to year and fund to fund due to several factors, and may include changes in the size and composition of the pool of Blackstone personnel participating in such Performance Plan in a given year, the performance of our various businesses, new developments in our businesses and product lines, and the named executive officer’s leadership and oversight of the business or corporate function for which the named executive officer is responsible and such named executive officer’s contributions with respect to our strategic initiatives and development. In addition, certain of our employees, including our named executive officers, may participate in profit sharing initiatives relating to certain Blackstone firm investments and may receive allocations of investment income from these investments, although no such investment income has yet been realized, or may receive equity awards in our investment advisory clients.

(a) *Carried Interest.* Carried interest cash distributions to our named executive officers and other employees who participate in our Performance Plans relating to our carry funds depends on the realized proceeds and timing of the cash realizations of the investments owned by the carry funds in which they participate. Our carry fund agreements also set forth specified preconditions to a carried interest distribution, which typically include that there must have been a positive return on the relevant investment and that the fund must be above its carried interest hurdle rate. In addition, as described below, employees or senior managing directors may also be required to have fulfilled specified service requirements in order to be eligible to receive carried interest distributions. For our carry funds, carried interest distributions for the named executive officer’s participation interests are generally made to the named executive officer following the actual realization of the investment, although a portion of such carried interest is held back by the firm in respect of any future “clawback” obligation related to the fund. In allocating participation interests in the carry pools, we have not historically taken into account or based such allocations on any prior or projected triggering of any “clawback” obligation related to any fund. To the extent any “clawback” obligation were to be triggered, carried interest previously distributed to a named executive officer would have to be returned to the limited partners of such fund, thereby reducing the named executive officer’s overall compensation for any such year. Moreover, because a carried interest recipient (including Blackstone itself) may have to fund more than his or her respective share of a “clawback” obligation under the governing documents (generally, up to an additional 50%), there is the possibility that the compensation paid to a named executive officer for any given year could be significantly reduced or even negative in the event a “clawback” obligation were to arise.

Participation in carried interest generated by our carry funds for all participating named executive officers other than Mr. Schwarzman is subject to vesting. Vesting serves as an employment retention mechanism and thereby enhances the alignment of interests between a participant in our Performance Plans and the firm. For carried interest allocated prior to December 31, 2012, each participating named executive officer (other than Mr. Schwarzman) vests in 25% of the carried interest related to an investment immediately upon the closing of the investment by a carry fund with the remainder vesting in equal installments on the first through third anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such three-year anniversary, in which case such executive officer is deemed 100% vested in the proceeds of such realizations). For carried interest allocated after December 31, 2012, the carried interest related to an investment vests in equal installments on the first through fourth anniversary of the closing of that investment. In addition, any named executive officer that is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. See “—Non-Competition and Non-Solicitation Agreements—Retirement.” We believe that vesting of carried interest participation enhances the stability of our senior management team and provides greater incentives for our named executive officers to remain at the firm. Due to his unique status as a founder and the long-time chief executive officer of our firm, Mr. Schwarzman vests in 100% of his carried interest participation related to any investment by a carry fund upon the closing of that investment.



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(b) *Incentive Fees*. Cash distributions of incentive fees to our named executive officers and other employees who participate in our Performance Plans relating to the funds that pay incentive fees depends on the performance of the investments owned by those funds in which they participate. For our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period and following the calculation of the profit split (if any) between the fund's general partner or investment adviser and the fund's investors, which occurs once a year (generally December 31 or June 30 of each year).

(c) *Advisory Client Interests*. Compensation we receive from investment advisory clients in the form of securities may be allocated to employees and senior managing directors. For example, in 2013, Messrs. Schwarzman, James, Tosi and Finley were each allocated restricted shares of listed common stock of BXMT in connection with advisory services provided by Blackstone to BXMT.

4. *Other Benefits*. Upon the consummation of our initial public offering in June 2007, we entered into a founding member agreement with our founder, Mr. Schwarzman, which provides specified benefits to him following his retirement. (See “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Schwarzman Founding Member Agreement”.) Mr. Schwarzman is provided certain security services, including home security systems and monitoring, and personal and related security services. These security services are provided for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Nevertheless, the expenses associated with these security services are reflected in the “All Other Compensation” column of the Summary Compensation Table below.

### *Determination of Incentive Compensation*

As our founder, Mr. Schwarzman sets his own compensation and reserves final approval of each named executive officer's compensation, based in large part on recommendations from Mr. James, other than with respect to Mr. James's own compensation. For 2013, these decisions were based primarily on Mr. Schwarzman's and Mr. James's assessment of such named executive officer's individual performance, operational performance for the segments or product lines in which the officer serves or for which he has responsibility, and the officer's potential to enhance investment returns for the investors in our funds and service to our advisory clients, and to contribute to long-term unitholder value. In evaluating these factors, Mr. Schwarzman, in consultation with Mr. James, relied upon his judgment to determine the ultimate amount of a named executive officer's annual cash payment and participation in carried interest, incentive fees and advisory client interests that was necessary to properly induce the named executive officer to seek to achieve our objectives and reward a named executive officer in achieving those objectives over the course of the prior year. Key factors that Mr. Schwarzman considered in making such determination with respect to Mr. James were his service as President and Chief Operating Officer, his role in overseeing the growth and operations of the firm, and his leadership on the strategic direction of the firm generally. Key factors that Mr. Schwarzman, in consultation with Mr. James, considered in making such determinations with respect to Mr. Hill were his leadership and oversight of our Hedge Fund Solutions business, including his role in the oversight and development of new products and strategies, and his leadership on strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman, in consultation with Mr. James, considered in making such determinations with respect to Mr. Tosi were his leadership and oversight of our global finance, treasury, technology and corporate development function and his role in strategic initiatives undertaken by the firm. Key factors that Mr. Schwarzman, in consultation with Mr. James, considered in making such determinations with respect to Mr. Finley were his leadership and oversight of our global legal and compliance functions, his role in positioning the firm to be compliant with the regulatory bodies that regulate and monitor the public company as well as our investment and advisory businesses and his role in strategic initiatives undertaken by the firm. For 2013, Mr. Schwarzman, in consultation with Mr. James, also considered each named executive officer's prior-year annual cash payments, indicative participation interests disclosed to the named executive officer at the beginning of the year, his allocated share of performance interests through

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participation in our Performance Plans, the appropriate balance between incentives for long-term and short-term performance, and the compensation paid to the named executive officer's peers within the firm.

### Minimum Retained Ownership Requirements

The minimum retained ownership requirements for our named executive officers are described below under “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Terms of Blackstone Holdings Partnership Units—Minimum Retained Ownership Requirements and Transfer Restrictions for Named Executive Officers.”

### Compensation Committee Report

The board of directors of our general partner does not have a compensation committee. The executive committee of the board of directors identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this annual report.

*Stephen A. Schwarzman, Chairman*  
*Hamilton E. James*  
*J. Tomilson Hill*  
*Jonathan D. Gray*

### Compensation Committee Interlocks and Insider Participation

As described above, we do not have a compensation committee. Our founder Mr. Schwarzman makes all such compensation determinations in consultation with Mr. James. For a description of certain transactions between us and Mr. Schwarzman, see “—Item 13. Certain Relationships and Related Transactions, and Director Independence.”

### Summary Compensation Table

The following table provides summary information concerning the compensation of our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated employees who served as executive officers at December 31, 2013, for services rendered to us during 2013, 2012 and 2011. These individuals are referred to as our named executive officers in this annual report.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus (a)</u>	<u>Stock Awards (b)</u>	<u>All Other Compensation (c)</u>	<u>Total</u>
Stephen A. Schwarzman Chairman and Chief Executive Officer	2013	\$350,000	\$ —	\$ —	\$ 21,641,142	\$21,991,142
	2012	\$350,000	\$ —	\$ —	\$ 8,064,804	\$ 8,414,804
	2011	\$350,000	\$ —	\$ —	\$ 4,609,445	\$ 4,959,445
Hamilton E. James President Chief Operating Officer	2013	\$350,000	\$34,471,212	\$ —	\$ 8,233,031	\$43,054,243
	2012	\$350,000	\$30,127,889	\$ —	\$ 2,796,035	\$33,273,924
	2011	\$350,000	\$26,193,619	\$ —	\$ 1,652,811	\$28,196,430
J. Tomilson Hill Vice Chairman	2013	\$350,000	\$11,056,098	\$ 14,515,676	\$ (49,282)	\$25,872,492
	2012	\$350,000	\$ 7,174,654	\$ 6,119,184	\$ 34,615	\$13,678,453
	2011	\$350,000	\$ 4,821,378	\$ 7,611,454	\$ 3,057	\$12,785,889
Laurence A. Tosi Chief Financial Officer	2013	\$350,000	\$ 7,254,261	\$ 729,067	\$ 2,245,049	\$10,578,377
	2012	\$350,000	\$ 6,359,759	\$ 801,975	\$ 731,535	\$ 8,243,269
	2011	\$350,000	\$ 5,557,426	\$ 5,441,075	\$ 314,290	\$11,662,791
John Finley Chief Legal Officer	2013	\$350,000	\$ 4,212,555	\$ 243,022	\$ 536,357	\$ 5,341,934

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- (a) The amounts reported in this column reflect the annual cash payments made for performance in the indicated year.

The amounts reported as “bonus” for Mr. Hill are shown net of his mandatory deferral pursuant to the Deferred Compensation Plan. The deferred amounts are as follows: \$11,865,200 for 2013, \$4,855,431 for 2012 and \$6,346,844 for 2011. For additional information on the Deferred Compensation Plan, see “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Deferred Compensation Plan.”

- (b) The reference to “stock” in this table refers to Blackstone Holdings Partnership Units or deferred restricted common units. The amounts reported in this column represent the grant date fair value of stock awards granted for financial statement reporting purposes in accordance with accounting principles generally accepted in the United States of America (“GAAP”) pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data”.

Mr. Hill received the following deferred equity awards for 2013, 2012 and 2011 performance pursuant to the Deferred Compensation Plan. On January 13, 2014, Mr. Hill received 489,774 deferred restricted common units (of which 408,145 units represent the bonus deferral amount with an aggregate grant date fair value of \$12,185,168, and 81,629 units represent the premium award equal to 20% of the deferral amount paid, with a grant date fair value of \$2,330,508). On January 9, 2013, Mr. Hill received 411,512 deferred restricted common units (of which 329,209 units represent the bonus deferral amount with an aggregate grant date fair value of \$4,957,066, and 82,303 units represent the premium award equal to 25% of the deferral amount paid, with a grant date fair value of \$1,162,118). On January 12, 2012, Mr. Hill received 534,408 deferred restricted common units (of which 445,340 units represent the bonus deferral amount with an aggregate grant date fair value of \$6,378,753, and 89,068 units represent the premium award equal to 20% of the deferral amount paid, with a grant date fair value of \$1,232,701). The grant date fair value of the stock award reflecting the deferred bonus amount is computed in accordance with GAAP and generally differs from the dollar amount of the portion of the bonus that is required to be deferred under the Deferred Compensation Plan.

For additional information on the Deferred Compensation Plan, see “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Deferred Compensation Plan.”

In 2013, 2012 and 2011, Mr. Tosi received a discretionary equity award of, respectively, 34,734, 61,360 and 344,154 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan, in each case reflecting his performance in the prior year. In 2013, Mr. Finley received a discretionary equity award of 11,578 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan reflecting his performance in the prior year.

- (c) Amounts included for 2013 include cash payments in respect of carried interest or incentive fee allocations relating to our Performance Plans to the named executive officers in 2013 as follows: \$21,015,180 for Mr. Schwarzman, \$8,045,521 for Mr. James, \$(49,282) for Mr. Hill, \$2,188,055 for Mr. Tosi and \$517,359 for Mr. Finley, respectively. We have determined to present compensation relating to carried interest and incentive fees within the Summary Compensation Table in the year in which such compensation is earned (that is, is actually received or receivable) by the named executive officer under the terms of the relevant Performance Plan. This compensation is generally earned in the same year in which such compensation is actually received by such named executive officer, although the named executive officer may in limited circumstances receive the compensation subsequent to the year in which it was earned (for example, it becomes payable at the end of 2013 but is paid in 2014). Accordingly, the amounts presented in the table differ from the compensation expense recorded by us on an accrual basis for such year in respect of carried interest and incentive fees allocable to a named executive officer, which accrued amounts for 2013 are separately disclosed in this footnote to the Summary Compensation Table. We believe that the presentation

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of the actual amounts of carried interest- and incentive fee-related compensation earned by a named executive officer during the year, instead of the amounts of compensation expense we have recorded on an accrual basis, most appropriately reflects the actual compensation received by the named executive officer and represents the amount most directly aligned with the named executive officer's actual performance. By contrast, the amount of compensation expense accrued in respect of carried interest and incentive fees allocable to a named executive officer can be highly volatile from year to year, with amounts accrued in one year being reversed in a following year, and vice versa, causing such amounts to be less useful as a measure of the compensation actually earned by a named executive officer in any particular year.

To the extent compensation expense recorded by us on an accrual basis in respect of carried interest or incentive fee allocations (rather than cash payments) were to be included for 2013, the amounts would be \$137,393,207 for Mr. Schwarzman, \$57,124,709 for Mr. James, \$4,148,499 for Mr. Hill, \$6,157,694 for Mr. Tosi and \$1,764,827 for Mr. Finley. For financial statement reporting purposes, the accrual of compensation expense is equal to the amount of carried interest and incentive fees related to performance fee revenues as of the last day of the relevant period as if the performance fee revenues in the funds generating such carried interest or incentive fees were realized as of the last day of the relevant period.

The \$(49,282) for Mr. Hill in 2013 consists primarily of a clawback on carried interest received in prior years that he was required to pay.

With respect to Messrs. Schwarzman, James, Tosi and Finley, amounts shown for 2013 also include the value of restricted shares of listed common stock of BXMT allocated to such named executive officers based on the closing price of BXMT's common stock on the date of the award as follows: \$559,202 for Mr. Schwarzman, \$187,510 for Mr. James, \$56,994 for Mr. Tosi and \$18,998 for Mr. Finley. These restricted shares will vest over three years with one-sixth of the shares vesting at the end of the second quarter after the date of the award and the remaining shares vesting in ten equal quarterly installments thereafter.

With the exception of \$66,760 of expenses related to security services for Mr. Schwarzman in 2013, perquisites and other personal benefits to the named executive officers were less than \$10,000 and information regarding perquisites and other personal benefits has therefore not been included. As noted above under “—Compensation Discussion and Analysis—Compensation Elements for Named Executive Officers—Other Benefits,” we consider the expenses for security services for Mr. Schwarzman to be for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Mr. Schwarzman makes business and personal use of a car and driver and he and members of his family also make business and personal use of an airplane in which we have a fractional interest and in each case he bears the full cost of such personal usage. In addition, certain Blackstone personnel administer personal matters for Mr. Schwarzman and certain matters for the Stephen A. Schwarzman Education Foundation (“SASEF”) and Mr. Schwarzman and SASEF, respectively, bear the full incremental cost to us of such personnel. Mr. James makes occasional personal use of an airplane in which we have a fractional interest and he bears the full cost of such personal usage. There is no incremental expense incurred by us in connection with the use of any car and driver, airplane or personnel by either of Messrs. Schwarzman or James, as described above.

During 2013, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$0.3 million to Mr. Schwarzman, \$20 thousand to Mr. James and \$27 thousand to Mr. Hill. During 2012, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$0.8 million to Mr. Schwarzman, \$0.1 million to Mr. James and \$0.1 million to Mr. Hill. During 2011, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$74.0 million to Mr. Schwarzman, \$0.1 million to Mr. James and \$10.3 million to Mr. Hill. During 2013, 2012 and 2011, Mr. Tosi did not receive cash distributions in respect of Blackstone legacy

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funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization. During 2013, Mr. Finley did not receive cash distributions in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization.

### Grants of Plan-Based Awards in 2013

The following table provides information concerning unit awards granted in, or (for Mr. Hill) with respect to, 2013 to our named executive officers:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (a)	Grant Date Fair Value of Stock and Option Awards (a)
Stephen A. Schwarzman	—	—	\$ —
Hamilton E. James	—	—	\$ —
J. Tomilson Hill	1/13/2014	408,145(b)	\$12,185,168
	1/13/2014	81,629(c)	\$ 2,330,508
Laurence A. Tosi	7/1/2013	34,734(d)	\$ 729,067
John Finley	7/1/2013	11,578(d)	\$ 243,022

- (a) The references to “stock” or “shares” in this table refer to deferred Blackstone Holdings Partnership Units or our deferred restricted common units.
- (b) Represents vested but undelivered deferred restricted common units granted under the Deferred Compensation Plan for 2013 performance. See “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Deferred Compensation Plan.” On January 9, 2013, Mr. Hill was granted 329,209 deferred restricted common units (with a grant date fair value of \$4,957,065) under the Deferred Compensation Plan for 2012 performance. This grant is reflected in the “Stock Awards” column of the Summary Compensation Table in 2012.
- (c) Represents the unvested premium award in respect of the deferred restricted common units grant made in respect of Mr. Hill’s 2013 performance under the Deferred Compensation Plan. On January 9, 2013, Mr. Hill was granted 82,303 deferred restricted common units (with a grant date fair value of \$1,162,118) as the premium award in respect of his grant under the Deferred Compensation Plan for 2012 performance. This grant is reflected in the “Stock Awards” column of the Summary Compensation Table in 2012.
- (d) Represents deferred restricted Blackstone Holdings Partnership Units granted under our 2007 Equity Incentive Plan and reflects 2012 performance.

### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013

#### *Terms of Blackstone Holdings Partnership Units*

Our pre-IPO owners, including our named executive officers other than Mr. Tosi and Mr. Finley, received Blackstone Holdings Partnership Units in the reorganization in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings. Each of Mr. Tosi and Mr. Finley received grants of Blackstone Holdings Partnership Units following the commencement of their employment with us under our 2007 Equity Incentive Plan. Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, these partnership units may be exchanged for our common units as described under “—Item 13. Certain Relationships and Related Transactions, and Director Independence—Exchange Agreement” below.

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*Vesting Provisions*. The Blackstone Holdings Partnership Units received by our named executive officers (other than Mr. Tosi and Mr. Finley) in the reorganization have the following vesting provisions:

- 25% of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested, with the remaining 75% vesting, subject to Mr. Schwarzman's continued employment, in equal installments on each anniversary of our initial public offering (June 21, 2007) over four years. All of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for his interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested; and
- 25% of the Blackstone Holdings Partnership Units received by each of Messrs. James and Hill in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested. The remaining units vest, subject to the named executive officer's continued employment, in equal installments on each anniversary of our initial public offering over up to eight years. All of the Blackstone Holdings Partnership Units received by Messrs. James and Hill in the reorganization in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested.

The deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2008 under the 2007 Equity Incentive Plan were subject to the following vesting terms: (a) 100% of the Blackstone Holdings Partnership Units underlying the sign-on grant to Mr. Tosi (155,764 units) vested on the fifth anniversary of the commencement date of his service with the firm (September 2, 2008) and (b) the deferred restricted Blackstone Holdings Partnership Units underlying his make-whole grant (338,381 units) vested annually in varying increments on each January 15 from 2009 to 2012. The 699,845 and 50,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2009 and 2010, respectively, under the 2007 Equity Incentive Plan vest in equal installments over five years on each anniversary of the January 15, 2009 and January 15, 2010 grant date, respectively. The 500,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Finley in 2010 under the 2007 Equity Incentive Plan vest in equal installments over five years on each anniversary of his hire date (September 1, 2010). The 344,154 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2011 under the 2007 Equity Incentive Plan will vest on January 1, 2016. The 61,360 and 20,454 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Mr. Finley, respectively, in 2012 under the 2007 Equity Incentive Plan will vest 20% on July 1, 2015, 30% on July 1, 2016 and 50% on July 1, 2017. The 34,734 and 11,578 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Mr. Finley, respectively, in 2013 under the 2007 Equity Incentive plan vest 20% on July 1, 2016, 30% on July 1, 2017 and 50% on July 1, 2018.

Except as described below, unvested partnership units are generally forfeited upon termination of employment. In connection with a named executive officer's termination of employment due to qualifying retirement, a named executive officer will generally vest in 50% of their unvested partnership units. See "Non-Competition and Non-Solicitation Agreements—Retirement." With respect to Mr. Tosi and Mr. Finley, the unvested partnership units granted to them in 2013 as well as any unvested partnership units granted to them pursuant to their respective senior managing director agreements will become fully vested if they are terminated by us without cause. A named executive officer who leaves our firm to accept specified types of positions in government service will continue to vest in units as if he had not left our firm during the period of government service. In addition, upon the death or permanent disability of a named executive officer, all of his unvested partnership units held at that time will vest immediately. Further, in the event of a change in control (defined in the Blackstone Holdings partnership agreements as the occurrence of any person becoming the general partner of The Blackstone Group L.P. other than a person approved by the current general partner), any Blackstone Holdings Partnership Units that are unvested will automatically be deemed vested as of immediately prior to such change in control.

All vested and unvested Blackstone Holdings Partnership Units (and our common units received in exchange for such Blackstone Holdings Partnership Units) held by a named executive officer will be immediately

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forfeited in the event he materially breaches any of his restrictive covenants set forth in the non-competition and non-solicitation agreement outlined under “Non-Competition and Non-Solicitation Agreements” or his service is terminated for cause.

All of our named executive officers are subject to the following minimum retained ownership requirements and transfer restrictions in respect of all Blackstone Holdings Partnership Units received by them as part of the reorganization or deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units received by them under the 2007 Equity Incentive Plan. We refer to these Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units as “subject units.”

*Minimum Retained Ownership Requirements* . While employed by us and generally for one year following the termination of employment, each of our named executive officers (except as otherwise provided below) will be required to continue to hold (and may not transfer) at least 25% of all vested subject units received by him. The requirement that one continue to hold at least 25% of vested units is subject to the qualification in Mr. Schwarzman’s case that in no event will he be required to hold units having a market value greater than \$1.5 billion. Subject units held by current and future personal planning vehicles beneficially owned by the families of a named executive officer are not deemed to be owned by these individuals for purposes of such minimum retained ownership requirements. Each of our named executive officers is in compliance with these minimum retained ownership requirements.

*Transfer Restrictions* . None of our named executive officers may transfer subject units at any time prior to December 31, 2014 other than pursuant to transactions or programs approved by our general partner.

This transfer restriction applies to sales, pledges of subject units, grants of options, rights or warrants to purchase subject units or swaps or other arrangements that transfer to another, in whole or in part, any of the economic consequences of ownership of the subject units other than as approved by our general partner. We expect that our general partner will approve pledges or transfers to personal planning vehicles beneficially owned by the families of our pre-IPO owners and charitable gifts, provided that the pledgee, transferee or donee agrees to be subject to the same transfer restrictions (except as specified above with respect to Mr. Schwarzman). Transfers to Blackstone are also exempt from the transfer restrictions.

The minimum retained ownership requirements and transfer restrictions set forth above will continue to apply generally for one year following the termination of employment of a named executive officer other than Mr. Schwarzman for any reason, except that the transfer restrictions set forth above will lapse upon death or permanent disability. All of the foregoing transfer restrictions will lapse in the event of a change in control (as defined above).

The Blackstone Holdings Partnership Units received by other Blackstone personnel in the reorganization and pursuant to the 2007 Equity Incentive Plan are also generally subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to our named executive officers other than Mr. Schwarzman, although non-senior managing directors are also generally subject to vesting in respect of a portion of the Blackstone Holdings Partnership Units received by such personnel in the reorganization in exchange for their interests in carried interest.

### ***Schwarzman Founding Member Agreement***

Upon the consummation of our initial public offering, we entered into a founding member agreement with Mr. Schwarzman. Mr. Schwarzman’s agreement provides that he will remain our Chairman and Chief Executive Officer while continuing service with us and requires him to give us six months’ prior written notice of intent to terminate service with us. The agreement provides that following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including that he will be permitted until the third anniversary of his retirement date to retain his current office and will be provided with a car and driver. Commencing on the third anniversary

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of his retirement date and continuing until the tenth anniversary thereof, we will provide him with an appropriate office if he so requests. Additionally, Mr. Schwarzman will be provided with an assistant and access to office services during the ten-year period following his retirement date.

Mr. Schwarzman will also continue to receive health benefits following his retirement until his death, subject to his continuing payment of the related health insurance premiums consistent with current policies. Additionally, before his retirement and during the ten-year period thereafter, Mr. Schwarzman and any foundations he may establish may continue to invest in our investment funds on a basis generally consistent with that of other partners.

### *Senior Managing Director Agreements*

Upon the consummation of our initial public offering, we entered into substantially similar senior managing director agreements with each of our named executive officers and other senior managing directors other than our founder, Mr. Tosi and Mr. Finley. Senior managing directors who have joined the firm after our initial public offering (including Mr. Tosi and Mr. Finley) have also entered into senior managing director agreements. The agreements generally provide that each senior managing director will devote substantially all of his or her business time, skill, energies and attention to us in a diligent manner. Each senior managing director will be paid distributions and benefits in amounts determined by Blackstone from time to time in its sole discretion. The agreements require us to provide the senior managing director with 90 days' prior written notice prior to terminating his or her service with us (other than a termination for cause). Additionally, the agreements require each senior managing director to give us 90 days' prior written notice of intent to terminate service with us and require the senior managing director to be placed on a 90-day period of "garden leave" following the senior managing director's termination of service (as further described under the caption "—Non-Competition and Non-Solicitation Agreements" below).

### *Senior Managing Director Agreement with Mr. Tosi*

In connection with the commencement of Mr. Tosi's employment with us in September 2008, we entered into a senior managing director agreement with him that included specific compensation terms. Those terms included his entitlement to three awards of deferred restricted Blackstone Holdings Partnership Units under our 2007 Equity Incentive Plan. The first award was a sign-on grant of 155,764 Blackstone Holdings Partnership Units, which was granted soon after the commencement of his employment with us. The second grant was a "make-whole" payment of 338,381 Blackstone Holdings Partnership Units, representing the value of compensation-related items from Merrill Lynch & Co., Inc. that Mr. Tosi forfeited as a result of his departure from that firm, which was granted soon after the commencement of his employment with the firm. The third grant of 699,845 Blackstone Holdings Partnership Units was in respect of a guaranteed equity grant for 2008 that was awarded on January 15, 2009. The unvested portion of Mr. Tosi's equity-based awards will be terminated once he is no longer a senior managing director of Blackstone, except that the then-outstanding but unvested portion of his awards will become fully vested if (a) his service with us is terminated by us without cause or as a result of his death or permanent disability or (b) there is a "change in control" (as defined in the partnership agreements of Blackstone Holdings). Mr. Tosi is generally subject to the same transfer restrictions and forfeiture terms with respect to his Blackstone Holdings Partnership Units as those that apply to the Blackstone Holdings Partnership Units held by the firm's other senior managing directors. The agreement also provides that Mr. Tosi will be permitted to invest in and alongside Blackstone's carry funds and in the firm's hedge funds as long as he serves as a senior managing director, subject to the same limitations on exclusions from management fees or incentive fees that are applicable to the firm's other senior managing directors. Mr. Tosi has also executed a senior managing director non-competition and non-solicitation agreement as part of the agreement. The terms of such non-competition and non-solicitation agreement are substantially the same as the terms included in the non-competition and non-solicitation agreements signed by the other senior managing directors and are described under the caption "—Non-Competition and Non Solicitation Agreements" below.



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### Senior Managing Director Agreement with Mr. Finley

In connection with the commencement of Mr. Finley's employment with us on September 1, 2010, we entered into a senior managing director agreement with him that included specific compensation terms. As part of Mr. Finley's senior managing director agreement, he received an equity award on October 1, 2010 of 500,000 deferred restricted Blackstone Holdings Partnership Units under our 2007 Equity Incentive Plan. These deferred restricted Blackstone Holdings Partnership Units vest in equal installments over five years on each anniversary of the hire date. The unvested portion of Mr. Finley's award will be terminated once he is no longer a senior managing director of Blackstone, except that the then-outstanding but unvested portion of his awards will become fully vested if (a) his service with us is terminated by us without cause or as a result of his death or permanent disability or (b) there is a "change in control" (as defined in the partnership agreements of Blackstone Holdings). Mr. Finley is generally subject to the same transfer restrictions and forfeiture terms with respect to his Blackstone Holdings Partnership Units as those that apply to the Blackstone Holdings Partnership Units held by the firm's other senior managing directors. The agreement also provides that Mr. Finley will be permitted to invest in and alongside Blackstone's carry funds and in the firm's hedge funds as long as he serves as a senior managing director, subject to the same limitations on exclusions from management fees or incentive fees that are applicable to the firm's other senior managing directors. Mr. Finley has also executed a senior managing director non-competition and non-solicitation agreement as part of the agreement. The terms of such non-competition and non-solicitation agreement are substantially the same as the terms included in the non-competition and non-solicitation agreements signed by the other senior managing directors and are described under the caption "—Non-Competition and Non-Solicitation Agreements" below.

### Outstanding Equity Awards at 2013 Fiscal Year End

The following table provides information regarding outstanding unvested equity awards made to our named executive officers as of December 31, 2013:

Name	Stock Awards (a)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	8,223,062	\$259,026,453
J. Tomilson Hill	2,988,163	\$ 94,127,135
Laurence A. Tosi	600,217	\$ 18,906,836
John Finley	232,032	\$ 7,309,008

- (a) The references to "stock" or "shares" in this table refer to Blackstone Holdings Partnership Units and the unvested premium portion of deferred restricted common units granted under the Deferred Compensation Plan. The vesting terms of these awards are described under the captions "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards" above and "Narrative to Nonqualified Deferred Compensation for 2013 Table" below.
- (b) The dollar amounts shown in this column were calculated by multiplying the number of unvested Blackstone Holdings Partnership Units or unvested deferred restricted common units held by the named executive officer by the closing market price of \$31.50 per Blackstone common unit on December 31, 2013, the last trading day of 2013.

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### Option Exercises and Stock Vested in 2013

The following table provides information regarding the number of outstanding initially unvested equity awards made to our named executive officers that vested during 2013:

Name	Stock Awards (a)	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	4,111,534	\$84,245,328
J. Tomilson Hill (c)	1,861,661	\$42,429,577
Laurence A. Tosi	305,733	\$ 5,919,063
John Finley	100,000	\$ 2,184,000

- (a) The references to “stock” or “shares” in this table refer to Blackstone Holdings Partnership Units and our deferred restricted common units.  
 (b) The value realized on vesting is based on the closing market prices of our common units on the day of vesting.  
 (c) For Mr. Hill, includes 408,145 vested deferred restricted common units, with a value realized on vesting of \$13,089,210, which were mandatorily deferred on January 13, 2014 pursuant to the Deferred Compensation Plan. These vested deferred restricted common units are scheduled to be delivered in equal annual installments over the four year deferral period and are reflected in the Nonqualified Deferred Compensation for 2013 Table below.

### Nonqualified Deferred Compensation for 2013

The following table provides a summary of the named executive officer’s participation in our Deferred Compensation Plan during 2013 with respect to mandatorily deferred and vested, but undelivered, deferred restricted common units. Mr. Hill was the only named executive officer who participated in our Deferred Compensation Plan in 2013, but additional named executive officers may, at the discretion of the Plan Administrator, participate in future years.

Name	Executive Contributions in 2013	Registrant Contributions in 2013 (a)	Aggregate Earnings (Losses) in 2013 (b)	Aggregate Withdrawals/Distributions (c)	Aggregate Balance at December 31, 2013 (d)
Stephen A. Schwarzman	\$ —	\$ —	\$ —	\$ —	\$ —
Hamilton E. James	\$ —	\$ —	\$ —	\$ —	\$ —
J. Tomilson Hill	\$ —	\$13,089,210	\$12,956,435	\$ (7,176,303)	\$37,548,992
Laurence A. Tosi	\$ —	\$ —	\$ —	\$ —	\$ —
John Finley	\$ —	\$ —	\$ —	\$ —	\$ —

- (a) This column represents the mandatory deferral of a portion Mr. Hill’s annual cash bonus for 2013 into 408,145 deferred restricted common units pursuant to our Deferred Compensation Plan. These units were granted to Mr. Hill in 2014 in respect of 2013 performance. These deferred restricted common units are fully vested, but will be delivered in equal annual installments over four years. The grant date fair value of these deferred restricted common units is reflected in the “Stock Awards” column of the Summary Compensation Table (see footnote (b) to the Summary Compensation Table).  
 (b) This column represents the earnings/(losses) during 2013 on deferred restricted common units granted to Mr. Hill pursuant to our Deferred Compensation Plan through the earlier of their delivery or December 31, 2013. No portion of any earnings would be considered above-market or preferential and, accordingly, no earnings are reflected in the Summary Compensation Table.  
 (c) Represents the value realized by Mr. Hill on 398,241 deferred restricted common units that were delivered in 2013.

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- (d) Represents the value as of December 31, 2013 of 1,184,646 deferred restricted common units granted to Mr. Hill. With respect to these deferred restricted common units, \$23,503,277 has been previously reported in the “Stock Awards” column of the Summary Compensation Table. The values set forth in this column are based on the closing market price of \$31.50 per Blackstone common unit on December 31, 2013, other than the units granted in 2014 in respect of 2013 performance, which are valued as of the date of their grant to him.

### *Narrative to Nonqualified Deferred Compensation for 2013 Table*

In 2007, we established our Deferred Compensation Plan (which we also refer to as our “Bonus Deferral Plan”) for certain eligible employees of Blackstone and certain of its affiliates in order to provide such eligible employees with a pre-tax deferred incentive compensation opportunity and to enhance the alignment of interests between such eligible employees and Blackstone and its affiliates. The Deferred Compensation Plan is an unfunded, nonqualified deferred compensation plan which provides for the automatic, mandatory deferral of a portion of each participant’s annual cash payment. In respect of the deferred portion of his or her annual cash payment, each participant receives deferral units which represent rights to receive in the future a specified amount of common units or Blackstone Holdings Partnership Units or other equity-based awards under our 2007 Equity Incentive Plan, subject to vesting provisions described below. The amount of each participant’s annual cash payment which is deferred under the plan depends on the total amount of such participant’s annual cash payment and for deferrals of 2013 annual cash payments was calculated on the basis set forth in the following table:

<u>Portion of Annual Cash Payment</u>	<u>Marginal Deferral Rate Applicable to Such Portion</u>	<u>Effective Deferral Rate for Entire Annual Bonus (a)</u>
\$0 – 100,000	0%	0.0%
\$100,001 – 200,000	15%	7.5%
\$200,001 – 500,000	20%	15.0%
\$500,001 – 750,000	30%	20.0%
\$750,001 – 1,250,000	40%	28.0%
\$1,250,001 – 2,000,000	45%	34.4%
\$2,000,001 – 3,000,000	50%	39.6%
\$3,000,001 – 4,000,000	55%	43.4%
\$4,000,001 – 5,000,000	60%	46.8%
\$5,000,000 +	65%	52.8%

- (a) Effective deferral rates are shown for illustrative purposes only and are based on an annual cash payment equal to the maximum amount in the range shown in the far left column (which is assumed to be \$7,500,000 for the last range shown).

In addition, each plan participant is eligible to receive a premium award in the amount equal to a percentage of his or her deferral amount. The percentage is selected by the Plan Administrator (as defined in the Deferred Compensation Plan). Generally, except in respect of 2012, the premium award percentage is 20%. Generally, the premium award percentage in respect of 2012 was 25%. The deferral amount plus the premium award yields the total amount of deferral units that a participant is awarded for any given year.

Generally, deferral units are satisfied by delivery of our common units in equal annual installments over the deferral period, which is three years for grants made in respect of years prior to 2012 and four years for grants made in respect of 2012 and subsequent years (with no partial-year delivery). However, the entire premium portion of such deferral units is, with specified exceptions, subject to continued employment of such participant through the end of the applicable deferral period and vests and is delivered at the end of such deferral period. Delivery of our common units underlying vested deferral units is delayed until anticipated trading window periods to better facilitate the participant’s liquidity to meet tax obligations. If the participant’s employment is terminated for cause, the participant’s undelivered deferral units (vested and unvested) will be immediately

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forfeited. In connection with a participant's termination of employment without cause or because of resignation, the entire unvested premium portion of the participant's deferral units will be immediately forfeited. In connection with a participant's termination of employment due to qualifying retirement, 50% of the unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. See "Non-Competition and Non-Solicitation Agreements—Retirement." In connection with a participant's termination of employment due to disability, the entire unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date. In addition, if, following a termination of employment without cause or because of resignation, retirement or disability, the participant violates any applicable provision of his or her employment agreement, including specified restrictive covenants such as a non-compete, then any deferral units (vested and unvested, as applicable) that remain undelivered as of the date of such violation, will be immediately forfeited. Upon a change in control or termination of the participant's employment because of death, any vested but undelivered deferral units will become immediately deliverable and the entire unvested premium portion of the participant's deferral units will immediately vest and become deliverable.

At the end of each year, the Plan Administrator selects plan participants in its sole discretion and notifies such individuals that they have been selected to participate in the Deferred Compensation Plan for such year. Participation is mandatory for those employees selected by the Plan Administrator to be participants. An individual, if selected, may not decline to participate in the Deferred Compensation Plan and an individual who is not so selected may not elect to participate in the Deferred Compensation Plan. The selection of participants is made on an annual basis; an individual selected to participate in the Deferred Compensation Plan for a given year may not necessarily be selected to participate in a subsequent year.

### **Potential Payments Upon Termination of Employment or Change in Control**

Upon a change of control event where any person (other than a person approved by our general partner) becomes our general partner or a termination of employment because of death, any unvested Blackstone Holdings Partnership Units and the unvested premium portion of any deferred restricted common units held by any of our named executive officers will automatically be deemed vested as of immediately prior to such occurrence of such change of control or such termination of employment. Had such a change of control or such a termination of employment occurred on December 31, 2013, the last business day of 2013, each of our named executive officers would have vested in the following numbers of Blackstone Holdings Partnership Units and deferred restricted common units, having the following values based on our closing market price of \$31.50 per Blackstone common unit on December 31, 2013: Mr. Schwarzman had no outstanding unvested units at December 31, 2013; Mr. James – 8,223,062 Blackstone Holdings Partnership Units with a value of \$259,026,453; Mr. Hill – 2,726,552 Blackstone Holdings Partnership Units with a value of \$85,886,388 and 261,611 deferred restricted common units with a value of \$8,240,747; Mr. Tosi – 600,217 Blackstone Holdings Partnership Units with a value of \$18,906,836 and Mr. Finley – 232,032 Blackstone Holdings Partnership Units with a value of \$7,309,008. In addition, the Deferred Compensation Plan provides that upon a change in control or termination of the participant's employment because of death, any fully vested but undelivered deferred restricted common units will become immediately deliverable. Therefore, had a change of control or such termination of employment occurred on December 31, 2013, Mr. Hill would also have been entitled to accelerated delivery of the 1,184,646 vested but undelivered deferred restricted common units outstanding as of such date.

Upon a termination of employment because of disability, any unvested Blackstone Holdings Partnership Units will also automatically be deemed vested. However, the Deferred Compensation Plan provides that in connection with a participant's termination of employment due to disability, the entire unvested premium portion of the participant's deferral units will continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to the participant not violating any applicable provision of his or her employment agreement. Therefore, had a termination of employment because of disability occurred on

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December 31, 2013, each of our named executive officers would have vested in the numbers of partnership units set forth in the paragraph immediately above, having the values set forth above, but Mr. Hill would not have immediately vested in his 261,611 unvested deferred restricted common units, which represent the premium portion of his deferred restricted common units.

In connection with a named executive officer's termination of employment due to qualifying retirement, a named executive officer will generally vest in 50% of their unvested Blackstone Holdings Partnership Units. See "Non-Competition and Non-Solicitation Agreements—Retirement." As of December 31, 2013, Mr. Hill and Mr. James were retirement eligible. Therefore, if Mr. Hill and Mr. James had retired on December 31, 2013, then Mr. Hill would have vested in 1,363,276 Blackstone Holdings Partnership Units with a value of \$42,943,194 and Mr. James would have vested in 4,111,531 Blackstone Holdings Partnership Units with a value of \$129,513,227. In addition, if Mr. Hill had retired on December 31, 2013, then the Deferred Compensation Plan provides that 50% of the unvested premium portion of his deferred restricted common units would continue to vest at the end of the applicable deferral period and be delivered on the applicable delivery date, subject to him not violating any applicable provision of his employment agreement.

Upon a termination of Mr. Tosi's or Mr. Finley's employment without cause, the unvested Blackstone Holdings Partnership Units granted to them in 2013 as well as any unvested Blackstone Holdings Partnership Units granted to them pursuant to their respective senior managing director agreements will become fully vested. Had such a termination without cause occurred on December 31, 2013, Mr. Tosi and Mr. Finley would have vested in the following numbers of Blackstone Holdings Partnership Units, having the following values based on our closing market price of \$31.50 per Blackstone common unit on December 31, 2013: Mr. Tosi – 174,703 units with a value of \$5,503,145 and Mr. Finley – 211,578 units with a value of \$6,664,707.

In addition, upon the death or disability of any named executive officer who participates in the carried interest of our carry funds, the named executive officer will be deemed 100% vested in any unvested portion of carried interest in our carry funds. Furthermore, any named executive officer that is retirement eligible will automatically vest in 50% of their otherwise unvested carried interest allocation upon retirement. See "—Non-Competition and Non-Solicitation Agreements—Retirement." As of December 31, 2013, Mr. James and Mr. Hill were retirement eligible for purposes of their carried interest allocations.

In addition, pursuant to Mr. Schwarzman's Founding Member Agreement described above under "Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2013—Schwarzman Founding Member Agreement," following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including an assistant during the ten-year period following his retirement and a car and driver during the three-year period following his retirement. As of December 31, 2013, the aggregate present value of these expected costs was \$1.0 million, for which approximately \$200,000, \$50,000 and \$100,000 were expensed for financial statement purposes in each of the years ended December 31, 2013, 2012 and 2011, respectively.

### **Non-Competition and Non-Solicitation Agreements**

Upon the consummation of our initial public offering, we entered into a non-competition and non-solicitation agreement with our founder, our other senior managing directors, most of our other professional employees and specified senior administrative personnel to whom we refer collectively as "Contracting Employees." Contracting Employees who have joined the firm after our initial public offering, such as Mr. Tosi and Mr. Finley, have also executed non-competition and non-solicitation agreements. The following are descriptions of the material terms of each such non-competition and non-solicitation agreement. With the exception of the few differences noted in the description below, the terms of each non-competition and non-solicitation agreement are generally in relevant part similar.

*Full-Time Commitment* . Each Contracting Employee agrees to devote substantially all of his or her business time, skill, energies and attention to his or her responsibilities at Blackstone in a diligent manner. Our founder Mr. Schwarzman has agreed that our business will be his principal business pursuit and that he will devote such time and attention to the business of the firm as may be reasonably requested by us.

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*Confidentiality* . Each Contracting Employee is required, whether during or after his or her employment with us, to protect and only use “confidential information” in accordance with strict restrictions placed by us on its use and disclosure. (Every employee of ours is subject to similar strict confidentiality obligations imposed by our Code of Conduct applicable to all Blackstone personnel.)

*Notice of Termination* . Each Contracting Employee is required to give us prior written notice of his or her intention to leave our employ—six months in the case of Mr. Schwarzman, 90 days for all of our other senior managing directors and between 30 and 60 days in the case of all other Contracting Employees.

*Garden Leave* . Upon his or her voluntary departure from our firm, a Contracting Employee is required to take a prescribed period of “garden leave.” The period of garden leave is 90 days for our non-founding senior managing directors and between 30 and 60 days for all other Contracting Employees. During this period the Contracting Employee will continue to receive some of his or her Blackstone compensation and benefits, but is prohibited from commencing employment with a new employer until the garden leave period has expired. The period of garden leave for each Contracting Employee will run coterminously with the non-competition Restricted Period that applies to him or her as described below. Our founder Mr. Schwarzman is subject to non-competition covenants but not garden leave requirements.

*Non-Competition* . During the term of employment of each Contracting Employee, and during the Restricted Period (as such term is defined below) immediately thereafter, he or she will not, directly or indirectly:

- engage in any business activity in which we operate, including any competitive business,
- render any services to any competitive business, or
- acquire a financial interest in or become actively involved with any competitive business (other than as a passive investor holding minimal percentages of the stock of public companies).

“Competitive business” means any business that competes, during the term of employment through the date of termination, with our business, including any businesses that we are actively considering conducting at the time of the Contracting Employee’s termination of employment, so long as he or she knows or reasonably should have known about such plans, in any geographical or market area where we or our affiliates provide our products or services.

*Non-Solicitation* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit any of our employees to leave their employment with us, or hire any such employee who was employed by us as of the date of his or her termination or who left employment with us within one year prior to or after the date of his or her termination. Additionally, each Contracting Employee may not solicit or encourage to cease to work with us any consultant or senior advisers that he or she knows or should know is under contract with us.

In addition, during the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit the business of any client or prospective client of ours with whom he or she, employees reporting to him or her, or anyone whom he or she had direct or indirect responsibility over had personal contact or dealings on our behalf during the three-year period immediately preceding his or her termination. Contracting Employees who are employed in our asset management businesses are subject to a similar non-solicitation covenant with respect to investors and prospective investors in our investment funds.

*Non-Interference and Non-Disparagement* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she may not interfere with business relationships between us and any of our clients, customers, suppliers or partners. Each Contracting Employee is also prohibited from disparaging us in any way.

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*Restricted Period* . For purposes of the foregoing covenants, the “Restricted Period” will be:

<u>Covenant</u>	<u>Stephen A. Schwarzman</u>	<u>Other Senior Managing Directors</u>	<u>Other Contracting Employees</u>
<i>Non-competition</i>	Two years after termination of employment.	One year (six months for senior managing directors who are eligible to retire, as defined below) after termination of employment.	Between 90 days and six months after termination of employment.
<i>Non-solicitation of Blackstone employees</i>	Two years after termination of employment.	Two years after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-solicitation of Blackstone clients or investors</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-interference with business relationships</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.

*Retirement* . Blackstone personnel are eligible to retire if they have satisfied either of the following tests: (a) one has reached the age of 65 and has at least five full years of service with our firm; or (b) generally one has reached the age of 55 and has at least five full years of service with our firm and the sum of his or her age plus years of service with our firm totals at least 65.

*Intellectual Property* . Each Contracting Employee is subject to customary intellectual property covenants with respect to works created, invented, designed or developed by him or her that are relevant to or implicated by his or her employment with us.

*Specific Performance* . In the case of any breach of the confidentiality, non-competition, non-solicitation, non-interference, non-disparagement or intellectual property provisions by a Contracting Employee, the breaching individual agrees that we will be entitled to seek equitable relief in the form of specific performance, restraining orders, injunctions or other equitable remedies.

### Director Compensation in 2013

No additional remuneration is paid to our employees for service as a director of our general partner. In 2013, each of our non-employee directors received an annual cash retainer of \$150,000 and a grant of deferred restricted common units equivalent in value to \$150,000, with a grant date fair value determined as described in footnote (a) to the first table below. The number of deferred restricted common units to be granted is based on the average of the high and low trading price of our common units on the grant date. An additional \$30,000 annual cash retainer was paid to the Chairman of the Audit Committee during 2013. An additional \$25,000 annual cash retainer was paid to Mr. Light in connection with his service as a director on the executive committee of Blackstone Group International Partners LLP.

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The following table provides the director compensation for our directors for 2013:

Name	Fees Earned or	Stock Awards	Total
	Paid in Cash	(a) (b)	
Jonathan D. Gray (c)	\$ —	\$ —	\$ —
The Right Honorable Brian Mulroney	\$ 150,000	\$ 150,479	\$300,479
William G. Parrett	\$ 180,000	\$ 149,501	\$329,501
Richard Jenrette	\$ 150,000	\$ 151,882	\$301,882
Jay O. Light	\$ 175,000	\$ 152,219	\$327,219
Rochelle B. Lazarus (d)	\$ 46,875	\$ 151,680	\$198,555

- (a) The references to “stock” in this table refer to our deferred restricted common units. Amounts for 2013 represent the grant date fair value of stock awards granted in the year, computed in accordance with GAAP, pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 16. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data”. These deferred restricted common units vest, and the underlying Blackstone common units will be delivered, on the first anniversary of the date of grant, subject to the outside director’s continued service on the board of directors of our general partner.
- (b) Each of our non-employee directors was granted deferred restricted common units upon appointment as a director. In 2013, in connection with the anniversary of his or her initial grant, each of the following directors was granted deferred restricted common units: Mr. Jenrette—6,910 units; Ms. Lazarus—7,247 units; Mr. Light—6,213 units; Mr. Mulroney—7,344 units; and Mr. Parrett—5,770 units. The amounts of our non-employee directors’ compensation were approved by the board of directors of our general partner upon the recommendation of our founder following his review of directors’ compensation paid by comparable companies.

The following table provides information regarding outstanding unvested equity awards made to our directors as of December 31, 2013:

Name	Stock Awards (1)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (2)
The Right Honorable Brian Mulroney	7,344	\$ 231,336
William G. Parrett	5,770	\$ 181,755
Richard Jenrette	6,910	\$ 217,665
Jay O. Light	6,213	\$ 195,710
Rochelle B. Lazarus	7,247	\$ 228,281

- (1) The references to “stock” or “shares” in this table refer to our deferred restricted common units.
- (2) The dollar amounts shown in this column were calculated by multiplying the number of unvested deferred restricted common units held by the director by the closing market price of \$31.50 per Blackstone common unit on December 31, 2013, the last trading day of 2013.
- (c) Mr. Gray is an employee and no additional remuneration is paid to him for service as a director of our general partner. Mr. Gray’s employee compensation is discussed in “—Item 13. Certain Relationships and Related Transactions, and Director Independence.”
- (d) Ms. Lazarus was appointed as a director of our general partner effective July 9, 2013. Therefore, the amount reported for Ms. Lazarus reflects the pro-rated portion of her annual cash retainer earned from the date of her appointment.



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### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common units and Blackstone Holdings Partnership Units as of February 21, 2014 by:

- each person known to us to beneficially own 5% of any class of the outstanding voting securities of The Blackstone Group L.P.;
- each member of our general partner’s board of directors;
- each of the named executive officers of our general partner; and
- all directors and executive officers of our general partner as a group.

The amounts and percentage of units beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of February 21, 2014. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise included, for purposes of this table, the principal business address for each such person is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

<u>Name of Beneficial Owner</u>	<u>Common Units, Beneficially Owned</u>		<u>Blackstone Holdings Partnership Units Beneficially Owned (a)</u>	
	<u>Number</u>	<u>% of</u>	<u>Number</u>	<u>% of</u>
<b>5% Unitholders:</b>				
Janus Capital Management LLC (b)	25,704,476	5%	—	—
FMR LLC (c)	33,864,273	7%	—	—
<b>Directors and Executive Officers (d)</b>				
Stephen A. Schwarzman (e)(f)	—	—	231,924,793	44%
Hamilton E. James (f)	3,000,000	1%	34,180,300	7%
J. Tomilson Hill (f)	1,969,829	0%	14,645,085	3%
Laurence A. Tosi	—	—	534,480	*
Jonathan D. Gray (f)	—	—	40,585,300	8%
John G. Finley	15,000	—	210,000	—
The Right Honorable Brian Mulroney	134,253	*	—	—
William G. Parrett	50,199	*	—	—
Richard Jenrette	29,001	*	—	—
Rochelle B. Lazarus	12,500	*	—	—
Jay O. Light	28,832	*	—	—
All executive officers and directors as a group (12 persons)	5,251,308	1%	322,238,572	61%

\* Less than one percent

(a) Subject to certain requirements and restrictions, the partnership units of Blackstone Holdings are exchangeable for common units of The Blackstone Group L.P. on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings Partnerships to effect an exchange for a common unit. See “—Item 13. Certain Relationships and Related Transactions, and Director Independence—Exchange Agreement”. Beneficial ownership of Blackstone

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Holdings Partnership Units reflected in this table has not been also reflected as beneficial ownership of the common units of The Blackstone Group L.P. for which such units may be exchanged.

- (b) Reflects units beneficially owned by Janus Capital Management LLC based on the Schedule 13G filed by Janus Capital on February 14, 2014. The address of Janus Capital Management is 151 Detroit Street, Denver, Colorado 80206.
- (c) Reflects units beneficially owned by FMR, LLC and its subsidiaries based on the Schedule 13G filed by FMR, LLC on February 13, 2014. The address of FMR, LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (d) The units beneficially owned by the directors and executive officers reflected above do not include the following number of units that will be delivered to the respective individual more than 60 days after February 21, 2014: J. Tomilson Hill – 1,056,499 deferred restricted common units; Laurence A. Tosi – 758,745 deferred restricted Blackstone Holdings Partnership Units; John Finley – 307,032 deferred restricted Blackstone Holdings Partnership Units; The Right Honorable Brian Mulroney – 7,344 deferred restricted common units; William G. Parrett – 5,770 deferred restricted common units; Richard Jenrette – 6,910 deferred restricted common units; Rochelle B. Lazarus – 7,247 deferred restricted common units; Jay O. Light – 6,213 deferred restricted common units; and all other executive officers and directors as a group – 311,848 deferred restricted Blackstone Holdings Partnership Units.
- (e) On those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, holds a special voting unit in The Blackstone Group L.P. that provides it with an aggregate number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Blackstone Holdings Partnership Units held by the limited partners of Blackstone Holdings on the relevant record date and entitles it to participate in the vote on the same basis as our common unitholders. Our senior managing directors have agreed in the limited liability company agreement of Blackstone Partners L.L.C. that our founder, Mr. Schwarzman, will have the power to determine how the special voting unit held by Blackstone Partners L.L.C. will be voted. Following the withdrawal, death or disability of Mr. Schwarzman (and any successor founder), this power will revert to the members of Blackstone Partners L.L.C. holding a majority in interest in that entity. The limited liability company agreement of Blackstone Partners L.L.C. provides that at such time as Mr. Schwarzman should cease to be a founding member, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of Blackstone Partners L.L.C. If Blackstone Partners L.L.C. directs us to do so, we will issue special voting units to each of the limited partners of Blackstone Holdings, whereupon each special voting unitholder will be entitled to a number of votes that is equal to the number of vested and unvested Blackstone Holdings Partnership Units held by such special voting unitholder on the relevant record date.
- (f) The Blackstone Holdings Partnership Units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Schwarzman – 1,666,666 units held in various trusts for which Mr. Schwarzman is the investment trustee, Mr. James – 10,657,207 units held in a trust for which Mr. James and his brother are trustees (but Mr. James does not have or share investment control with respect to the units), Mr. Hill – 250,000 units held by Mr. Hill's spouse and 5,636,348 units held in various trusts for which Mr. Hill's spouse is the investment trustee, Mr. Tosi – 225,000 units held in a trust for which Mr. Tosi is the investment trustee, and Mr. Gray – 4,566,437 units held in a trust for which Mr. Gray is the investment trustee, (b) the following units held in grantor retained annuity trusts for which the named executive officer or director, as applicable, is the investment trustee: Mr. Schwarzman – 2,713,432 units, Mr. Hill – 1,436,274 units, and Mr. Gray – 5,892,454 units, and (c) the following units held by a corporation for which the named executive officer is a controlling shareholder: Mr. Schwarzman – 1,438,529 units. Mr. Schwarzman also directly, or through a corporation for which he is the controlling shareholder, beneficially owns an additional 364,278 partnership units in each of Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. In addition, with respect to Mr. Schwarzman, the above table excludes partnership units of Blackstone Holdings held by his children or in trusts for the benefit of his family as to which he has no voting or investment control.

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In addition, as of February 21, 2014, Beijing Wonderful Investments, an investment vehicle established and controlled by the People's Republic of China, holds 77,144,845 of our non-voting common units and may from time to time make open market purchases or sales of our voting common units.

### Securities Authorized for Issuance under Equity Compensation Plans

The table set forth below provides information concerning the awards that may be issued under the 2007 Equity Incentive Plan as of December 31, 2013:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (b)
Equity Compensation Plans Approved by Security Holders	58,100,633	—	150,927,382
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>58,100,633</b>	<b>—</b>	<b>150,927,382</b>

- (a) Reflects the outstanding number of our deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units granted under the 2007 Equity Incentive Plan as of December 31, 2013.
- (b) The aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of our common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly owned subsidiaries) minus (b) the aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of our common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). As of January 1, 2014, pursuant to this formula, 164,224,426 units, which is equal to 0.15 times the number of our common units and Blackstone Holdings Partnership Units outstanding on December 31, 2013, were available for issuance under the 2007 Equity Incentive Plan. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by the 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Transactions with Related Persons

#### *Tax Receivable Agreements*

We used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the pre-IPO owners. In addition, holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The

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Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. Blackstone Holdings I L.P. and Blackstone Holdings II L.P. have made an election under Section 754 of the Internal Revenue Code effective for each taxable year in which an exchange of partnership units for common units occurs, which may result in an adjustment to the tax basis of the assets of such Blackstone Holdings partnerships at the time of an exchange of partnership units. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of Blackstone's wholly owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future. One of the subsidiaries of The Blackstone Group L.P. which is a corporate taxpayer has entered into a tax receivable agreement with holders of Blackstone Holdings Partnership Units that provides for the payment by the corporate taxpayer to such holders of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of these increases in tax basis and of certain other tax benefits related to our entering into tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreement. Additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayer would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreement. A limited partner of Blackstone Holdings may also elect to exchange his or her Blackstone Holdings Partnership Units in a tax-free transaction where the limited partner is making a charitable contribution. In such a case, the exchange will not result in an increase in the tax basis of the assets of Blackstone Holdings and no payments will be made under the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of our IPO and will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayers exercise their right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase and exchanges will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$407.4 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. Subsequent to December 31, 2013, payments totaling \$80.6 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreement and related to tax benefits we received for the 2012 taxable year. Those payments included payments of \$12,702,691 to Stephen A. Schwarzman and investment vehicles controlled by a relative of Mr. Schwarzman; \$2,283,817 to Hamilton E. James and a trust for which Mr. James is the investment trustee; \$1,328,521 to J. Tomilson Hill and a trust for which Mr. Hill is the investment trustee and \$34,633 to Laurence A. Tosi.

In addition, the tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable

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income to fully utilize the benefits arising from the increased tax deductions and tax basis and other similar benefits. Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis and other similar benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by an exchanging or selling holder of Blackstone Holdings Partnership Units, under the tax receivable agreement. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under a tax receivable agreement and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase the tax liability of a holder of Blackstone Holdings Partnership Units without giving rise to any rights of a holder of Blackstone Holdings Partnership Units to receive payments under any tax receivable agreements.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the corporate taxpayers will not be reimbursed for any payments previously made under a tax receivable agreement. As a result, in certain circumstances, payments could be made under a tax receivable agreement in excess of the corporate taxpayers' cash tax savings.

### ***Registration Rights Agreement***

In connection with the restructuring and IPO, we entered into a registration rights agreement with our pre-IPO owners pursuant to which we granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act common units delivered in exchange for Blackstone Holdings Partnership Units or common units (and other securities convertible into or exchangeable or exercisable for our common units) otherwise held by them. In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the registration rights agreement. Under the registration rights agreement, we agreed to register the exchange of Blackstone Holdings Partnership Units for common units by our holders of Blackstone Holdings Partnership Units. In June 2008, we filed a registration statement on Form S-3 with the Securities and Exchange Commission to cover future issuances from time to time of up to 818,008,105 common units to holders of Blackstone Holdings Partnership Units upon exchange of up to an equal number of such Blackstone Holdings Partnership Units. In addition, our founder, Stephen A. Schwarzman, has the right to request that we register the sale of common units held by holders of Blackstone Holdings Partnership Units an unlimited number of times and may require us to make available shelf registration statements permitting sales of common units into the market from time to time over an extended period. In addition, Mr. Schwarzman has the ability to exercise certain piggyback registration rights in respect of common units held by holders of Blackstone Holdings Partnership Units in connection with registered offerings requested by other registration rights holders or initiated by us.

### ***iLevel Transaction***

Blackstone and Swift River Investments, Inc., a private family investment firm which manages capital on behalf of our President, Chief Operating Officer and Director, Hamilton E. James, his brother, David R. James, and members of their families, are the largest shareholders in iLevel Solutions LLC ("iLevel"), a business that provides private equity software and advanced portfolio monitoring software solutions to private equity firms and other institutions, including Blackstone, with approximately 22.0% and 25.4% equity interests, respectively. While Hamilton E. James has a majority economic interest in Swift River Investments, the day-to-day business of Swift River Investments is managed by David R. James.

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### *Compensation of Jonathan D. Gray*

On February 24, 2012, Jonathan D. Gray was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Gray joined Blackstone in 1992 and is a Senior Managing Director and Global Head of Real Estate. For 2013, Mr. Gray received a base salary of \$350,000 and an annual cash bonus payment of \$26,665,762. The cash payment was based upon the performance of the Real Estate segment, including the contribution of all current and past funds within the segment dating back to before the IPO. The ultimate cash payment to Mr. Gray was, however, determined in the discretion of Mr. Schwarzman in consultation with Mr. James.

Mr. Gray also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Gray in respect of carried interest in our carry funds primarily relates to Mr. Gray's participation in the real estate funds (which were formed both before and after the IPO). The amount of cash payments in respect of carried interest or incentive fee allocations to Mr. Gray for 2013 was \$25,985,203. See "Executive Compensation—Compensation Elements for Named Executive Officers" in this report for additional discussion of the elements of our compensation program.

Mr. Gray was also allocated restricted shares of listed common stock of BXMT in connection with advisory services provided by Blackstone to BXMT. The value of the restricted shares allocated to Mr. Gray, based on the closing price of BXMT's common stock on the date of the award, was \$940,157. These restricted shares will vest over three years with one-sixth of the shares vesting at the end of the second quarter after the date of the award and the remaining shares vesting in ten equal quarterly installments thereafter.

### **Blackstone Holdings Partnership Agreements**

As a result of the reorganization and the IPO, The Blackstone Group L.P. became a holding partnership and, through wholly owned subsidiaries, held equity interests in the five holdings partnerships (i.e., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.). On January 1, 2009, in order to simplify our structure and ease the related administrative burden and costs, we effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to the five holding partnerships prior to the January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization. Wholly owned subsidiaries of The Blackstone Group L.P. are the sole general partner of each of the Blackstone Holdings Partnerships. Accordingly, The Blackstone Group L.P. operates and controls all of the business and affairs of Blackstone Holdings and, through Blackstone Holdings and its operating entity subsidiaries, conducts our business. Through its wholly owned subsidiaries, The Blackstone Group L.P. has unilateral control over all of the affairs and decision making of Blackstone Holdings. Furthermore, the wholly owned subsidiaries of The Blackstone Group L.P. cannot be removed as the general partners of the Blackstone Holdings Partnerships without their approval. Because our general partner, Blackstone Group Management L.L.C., operates and controls the business of The Blackstone Group L.P., the board of directors and officers of our general partner are accordingly responsible for all operational and administrative decisions of Blackstone Holdings and the day-to-day management of Blackstone Holdings' business. Pursuant to the partnership agreements of the Blackstone Holdings Partnerships, the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships have the right to determine when distributions will be made to the partners of Blackstone Holdings and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of Blackstone Holdings pro rata in accordance with the percentages of their respective partnership interests as described under "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy."

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Each of the Blackstone Holdings Partnerships has an identical number of partnership units outstanding, and we use the terms “Blackstone Holdings Partnership Unit” or “partnership unit in/of Blackstone Holdings” to refer, collectively, to a partnership unit in each of the Blackstone Holdings Partnerships. The holders of partnership units in Blackstone Holdings, including The Blackstone Group L.P.’s wholly owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Blackstone Holdings. Net profits and net losses of Blackstone Holdings will generally be allocated to its partners (including The Blackstone Group L.P.’s wholly owned subsidiaries) pro rata in accordance with the percentages of their respective partnership interests as described under “Part II. Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy”. The partnership agreements of the Blackstone Holdings Partnerships provide for cash distributions, which we refer to as “tax distributions,” to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings Partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions are computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). Tax distributions are made only to the extent all distributions from such partnerships for the relevant year are insufficient to cover such tax liabilities.

Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, Blackstone Holdings Partnership Units may be exchanged for The Blackstone Group L.P. common units as described under “—Exchange Agreement” below. In addition, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings Partnership Units, and which may be exchangeable for our common units.

See “—Item 11. Executive Compensation—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards—Terms of Blackstone Holdings Partnership Units—Vesting Provisions” for a discussion of vesting provisions applicable to Blackstone personnel in respect of the Blackstone Holdings Partnership Units received by them in the reorganization and “—Item 11. Executive Compensation—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards—Terms of Blackstone Holdings Partnership Units—Minimum Retained Ownership Requirements and Transfer Restrictions” for a discussion of minimum retained ownership requirements and transfer restrictions applicable to the Blackstone Holdings Partnership Units. The generally applicable vesting and minimum retained ownership requirements and transfer restrictions are outlined in the sections referenced in the preceding sentence. There may be some different arrangements for some individuals in some instances. In addition, we may waive these requirements and restrictions from time to time.

In addition, substantially all of our expenses, including substantially all expenses solely incurred by or attributable to The Blackstone Group L.P. but not including obligations incurred under the tax receivable agreement by The Blackstone Group L.P.’s wholly owned subsidiaries, income tax expenses of The Blackstone Group L.P.’s wholly owned subsidiaries and payments on indebtedness incurred by The Blackstone Group L.P.’s wholly owned subsidiaries, are borne by Blackstone Holdings.

### Exchange Agreement

In connection with the reorganization and IPO, we entered into an exchange agreement with the holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.’s wholly owned subsidiaries). In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the exchange agreement. Under the exchange

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agreement, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, each such holder of Blackstone Holdings Partnership Units (and certain transferees thereof) may up to four times each year (subject to the terms of the exchange agreement) exchange these partnership units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Under the exchange agreement, to effect an exchange a holder of partnership units in Blackstone Holdings must simultaneously exchange one partnership unit in each of the Blackstone Holdings Partnerships. As a holder exchanges its Blackstone Holdings Partnership Units, The Blackstone Group L.P.'s indirect interest in the Blackstone Holdings Partnerships will be correspondingly increased.

### **Firm Use of Private Aircraft**

Certain entities controlled by Mr. Schwarzman wholly own an airplane and have a partial interest in a helicopter that we use for business purposes in the course of our operations. Mr. Schwarzman paid for the ownership interests in these aircraft himself and bore all operating, personnel and maintenance costs associated with their operation. The hourly payments we made to these entities for such use were based on current market rates. In 2013, we paid to these entities \$2.7 million for the use of the airplane and \$0.2 million for the use of the helicopter.

An entity jointly controlled by Mr. James and Mr. Gray wholly owns an airplane that we use for business purposes in the course of our operations. Each of Mr. James and Mr. Gray paid for his respective ownership interest in this aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with its operation. The hourly payments we will make for such use will be based on current market rates. Although we made no payments during 2013 for such use, we expect the amount payable in connection with our use of this aircraft in 2013 to be approximately \$0.8 million.

### **Side-By-Side and Other Investment Transactions**

Our directors and executive officers are permitted to invest their own capital in side-by-side investments with our carry funds. Side-by-side investments are investments in portfolio companies or other assets on generally the same terms and conditions as those investments made by the applicable fund, except that these side-by-side investments are not subject to management fees or carried interest. In addition, our directors and executive officers are permitted to invest their own capital in our funds of hedge funds and credit-focused funds that are structured as hedge funds, in some instances, not subject to management fees or carried interest. These investment opportunities are available to all of our senior managing directors and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. During the year ended December 31, 2013, Mr. Schwarzman, Mr. James, Mr. Hill, Mr. Tosi, Mr. Finley and Mr. Parrett (and certain investment trusts controlled by them or their immediate family members) received \$78.2 million, \$15.7 million, \$10.3 million, \$0.1 million, \$0.2 million and \$0.2 million, respectively, relating to their personal investments (and the investments of such trusts) in Blackstone-managed investment funds.

### **Statement of Policy Regarding Transactions with Related Persons**

The board of directors of our general partner has adopted a written statement of policy regarding transactions with related persons, which we refer to as our "related person policy." Our related person policy requires that a "related person" (as defined as in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to the Chief Legal Officer of our general partner any "related person transaction" (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. The Chief Legal Officer will then promptly communicate that information to the board of directors of our general partner. No related person



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transaction will be consummated without the approval or ratification of the board of directors of our general partner or any committee of the board of directors consisting exclusively of disinterested directors. It is our policy that directors interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

### Indemnification of Directors and Officers

Under our partnership agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our general partner; any departing general partner; any person who is or was an affiliate of a general partner or any departing general partner; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, the general partner or any departing general partner or any affiliate of ours or our subsidiaries, the general partner or any departing general partner; any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our general partner. We have agreed to provide this indemnification to the extent such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the partnership, and with respect to any alleged conduct resulting in a criminal proceeding against such person, to deny indemnification if such person had reasonable cause to believe that his or her conduct was unlawful. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

We will also indemnify any of our employees who personally becomes subject to a “clawback” obligation to one of our investment funds in respect of carried interest that we have received. See “Part I. Item 1. Business—Incentive Arrangements / Fee Structure”.

### Non-Competition and Non-Solicitation Agreements

We have entered into a non-competition and non-solicitation agreement with each of our professionals and other senior employees, including each of our executive officers. See “—Item 11. Executive Compensation—Non-Competition and Non-Solicitation Agreements” for a description of the material terms of such agreements.

### Director Independence

Because we are a publicly traded limited partnership, the NYSE rules do not require our general partner’s board to be made up of a majority of independent directors. However, five of the nine members of our general partner’s board of directors satisfy the independence and financial literacy requirements of the NYSE and the SEC. These directors are Messrs. Jenrette, Light, Mulroney and Parrett and Ms. Lazarus. Based on all relevant facts and circumstances, our general partner’s board of directors affirmatively determined on January 28, 2014 that the independent directors have no material relationship with us or our general partner. The board of directors of our general partner follows the following standards in determining director independence:

Under any circumstances, a director is not independent if:

- the director is, or has been within the preceding three years, employed by our general partner or us,
- an immediate family member of the director was employed as an executive officer of our general partner or us within the preceding three years,

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- the director, or an immediate family member of that director, received within the preceding three years more than \$120,000 in any twelve-month period in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service),
- the director is a current partner or employee of a firm that is our internal or external auditor; the director has an immediate family member who is a current partner of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on our audit; or the director or an immediate family member of that director was within the last three years a partner or employee of such a firm and personally worked on our or a predecessor's audit within that time,
- the director or an immediate family member is, or has been within the preceding three years, employed as an executive officer of another company where any of our general partner's present executive officers at the same time serves or served on such other company's compensation committee, or
- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the preceding three fiscal years, exceeds the greater of \$1,000,000 or two percent (2%) of the consolidated gross revenues of the other company.

The following commercial or charitable relationships will not be considered to be material relationships that would impair a director's independence:

- if the director or an immediate family member of that director serves as an executive officer, director or trustee of a charitable organization, and our annual charitable contributions to that organization (excluding contributions by us under any established matching gift program) are less than the greater of \$1,000,000 or two percent (2%) of that organization's consolidated gross revenues in its most recent fiscal year, and
- if the director or an immediate family member of that director (or a company for which the director serves as a director or executive officer) invests in or alongside of one or more investment funds or investment companies managed by us or any of our subsidiaries, whether or not fees or other incentive arrangements for us or our subsidiaries are borne by the investing person.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, the "Deloitte Entities"):

	Year Ended December 31, 2013		
	The	Blackstone	Blackstone
	Blackstone	Entities,	Funds,
Group L.P.	Principally	Transaction	
		Fund Related (c)	Related (d)
		(Dollars in Thousands)	
Audit Fees	\$ 9,130(a)	\$ 25,504	\$ —
Audit-Related Fees	\$ —	\$ 170	\$ 9,778
Tax Fees	\$ 450(b)	\$ 47,164	\$ 2,984

	Year Ended December 31, 2012		
	The	Blackstone	Blackstone
	Blackstone	Entities,	Funds,
Group L.P.	Principally	Transaction	
		Fund Related (c)	Related (d)
		(Dollars in Thousands)	
Audit Fees	\$ 11,000(a)	\$ 22,544	\$ —
Audit-Related Fees	\$ 1,046	\$ 95	\$ 9,677
Tax Fees	\$ 500(b)	\$ 29,068	\$ 4,802

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- (a) Audit Fees consisted of fees for (a) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation, (b) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and (c) consents and other services related to SEC and other regulatory filings.
- (b) Tax Fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.
- (c) The Deloitte Entities also provide audit and tax services to certain Blackstone funds and other corporate entities. The tax services provided consist primarily of tax compliance and related services.
- (d) Audit-Related Fees included merger and acquisition due diligence services provided in connection with potential acquisitions of portfolio companies for investment purposes primarily to certain private equity and real estate funds managed by Blackstone in its capacity as the general partner. In addition, the Deloitte Entities provide audit, audit-related, tax and other services to certain portfolio companies for which services and fees are approved directly by the portfolio company's management and are not included in the amounts presented here.

Our audit committee charter, which is available on our website at [www.blackstone.com](http://www.blackstone.com) under "Investor Relations", requires the audit committee to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm in accordance with the audit and non-audit related services pre-approval policy. All services reported in the Audit, Audit-Related and Tax categories above were approved by the audit committee.

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### PART IV.

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this annual report.

1. *Financial Statements:*

See Item 8 above.

2. *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-141504) filed with the SEC on March 22, 2007).
3.2	Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K filed with the SEC on June 27, 2007).
3.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 3.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
3.2.2	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 4, 2011 (incorporated herein by reference to Exhibit 3.2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
4.1	Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.2	First Supplemental Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.3	Form of 6.625% Senior Note due 2019 (included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.6	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.7	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.6 hereto).
4.8	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.9	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.8 hereto).
10.1	Amended and Restated Limited Partnership Agreement of Blackstone Holdings I L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings I L.P. party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.1.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings I L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.1.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.2	Amended and Restated Limited Partnership Agreement of Blackstone Holdings II L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings II L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.3	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III L.P., dated as of January 1, 2009, by and among Blackstone Holdings III GP L.L.C. and the limited partners of Blackstone Holdings III L.P. party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.3.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings III L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.4	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV L.P., dated as of January 1, 2009, by and among Blackstone Holdings IV GP L.P. and the limited partners of Blackstone Holdings IV L.P. party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.4.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings IV L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.5	Tax Receivable Agreement, dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc., Blackstone Holdings I L.P., Blackstone Holdings II L.P. and the limited partners of Blackstone Holdings I L.P. and Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.6	Second Amended and Restated Exchange Agreement, dated as of February 28, 2013, among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.7	Registration Rights Agreement, dated as of June 18, 2007 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.8.1+	The Blackstone Group L.P. Amended and Restated 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.8.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.9+*	The Blackstone Group L.P. Fifth Amended and Restated Bonus Deferral Plan effective as of December 1, 2013.
10.10+	Founding Member Agreement of Stephen A. Schwarzman, dated as of June 18, 2007, by and among Blackstone Holdings I L.P. and Stephen A. Schwarzman (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.11+	Agreement, dated as of June 9, 2008, between Blackstone Holdings I L.P. and Laurence A. Tosi (incorporated herein by reference to Exhibit 10.28 to the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2008).
10.12+	Form of Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 14, 2007). (Applicable to all executive officers other than Messrs. Schwarzman and Peterson).
10.13+	Form of Deferred Restricted Common Unit Award Agreement (Directors) (incorporated herein by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.14+	Form of Deferred Restricted Blackstone Holdings Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.15	Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.15.1	First Amendment, dated as of April 8, 2011, to the Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as Borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.15.2	Second Amendment, dated as of July 13, 2012, to the Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as Borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank, N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on July 17, 2012).
10.16	Letter Agreement between The Blackstone Group L.P. and the Beijing Wonderful Investments Ltd, dated May 22, 2007 (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 4, 2007).
10.17	Letter Agreement, dated October 16, 2008, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd, amending the Letter Agreement, dated May 22, 2007, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd (incorporated herein by reference to Exhibit 10.16.1 to the Registrants' Current Report on Form 8-K filed with the SEC on October 16, 2008).
10.18+	Second Amended and Restated Limited Liability Company Agreement of BMA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BMA V L.L.C. (incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.20+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.20.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.20.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.21+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Management Associates IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Management Associates IV L.L.C. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.22+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates L.L.C. (incorporated herein by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.23+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates II L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates II L.L.C. (incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.24+	Second Amended and Restated Limited Liability Company Agreement of BREA IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA IV L.L.C. (incorporated herein by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.25+	Second Amended and Restated Limited Liability Company Agreement of BREA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA V L.L.C. (incorporated herein by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26+	Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.26.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.27	Second Amended and Restated Limited Liability Company Agreement of Blackstone Communications Management Associates I L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Communications Management Associates I L.L.C. (incorporated herein by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.28+	Amended and Restated Limited Liability Company Agreement of BCLA L.L.C., dated as of April 15, 2008, by and among Blackstone Holdings III L.P. and certain members of BCLA L.L.C. (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.29+	Third Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates Europe III L.P., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.30+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Real Estate Special Situations Associates L.L.C., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.31+	BMA VI L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2008 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.32+	Fourth Amended and Restated Limited Liability Company Agreement of GSO Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.33+	Amended and Restated Limited Liability Company Agreement of GSO Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.34+	Third Amended and Restated Limited Liability Company Agreement of GSO Origination Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.35+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.36+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.37+	Second Amended and Restated Limited Liability Company Agreement of GSO Liquidity Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.38+	Amended and Restated Limited Liability Company Agreement of GSO Liquidity Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.39+	Blackstone / GSO Capital Solutions Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of May 22, 2009 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.40+	Blackstone / GSO Capital Solutions Overseas Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of July 10, 2009 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.41+	Blackstone Real Estate Special Situations Associates II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.42+	Blackstone Real Estate Special Situations Management Associates Europe L.P. Amended and Restated Agreement of Limited Partnership, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.43+	BRECA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of May 1, 2009 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Quarterly Report on 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.44	Amended and Restated Master Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Management Partners IV, L.L.C., dated as of February 27, 2012 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.45	GSO Targeted Opportunity Associates LLC Amended and Restated Limited Liability Company Agreement Dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.46	GSO Targeted Opportunity Overseas Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.47	BCVA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 8, 2010 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.48	Amended and Restated Agreement of Exempted Limited Partnership of MB Asia REA L.P., dated November 23, 2010 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33551) filed with the SEC on February 25, 2011).
10.49	Amended and Restated Limited Liability Company Agreement of GSO SJ Partners Associates LLC, dated December 7, 2010, by and among GSO Holdings I L.L.C. and certain members of GSO SJ Partners Associates LLC thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.50	Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates II LLC, dated as of March 31, 2011, by and among GSO Holdings I L.L.C. and certain members of GSO Capital Opportunities Associates II LLC thereto (incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.51	Blackstone EMA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.52	GSO NMERB Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 25, 2011 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53	Blackstone Real Estate Associates VII L.P. Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53.1	Blackstone Real Estate Associates VII L.P. Second Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.53.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.54	GSO Energy Partners-A Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of February 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.55	BTOA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of February 15, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.56+	Form of Deferred Holdings Unit Agreement for Senior Managing Directors (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.57+	Amended and Restated Limited Liability Company Agreement of Blackstone Commercial Real Estate Debt Associates L.L.C., dated as of November 12, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.58+	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.59+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.60+	GSO Foreland Resources Co-Invest Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 10, 2012 (incorporated herein by reference to Exhibit 10.60 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.61+	GSO Palmetto Opportunistic Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2012 (incorporated herein by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33551) filed with the SEC on March 1, 2013).
10.62+*	Agreement, dated as of July 6, 2010, between Blackstone Holdings I L.P. and John G. Finley.
10.63+*	Second Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Asia L.P., dated February 26, 2014.
10.64+*	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Europe IV L.P., dated February 26, 2014.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1*	Section 13(r) Disclosure.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

+ Management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

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

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2014

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

/s/ Laurence A. Tosi

Name: Laurence A. Tosi

Title: Chief Financial Officer  
(Principal Financial Officer and  
Authorized Signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 28th day of February, 2014.

<u>Signature</u>	<u>Title</u>
<u>/s/ Stephen A. Schwarzman</u> Stephen A. Schwarzman	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
<u>/s/ Jonathan D. Gray</u> Jonathan D. Gray	Director
<u>/s/ J. Tomilson Hill</u> J. Tomilson Hill	Director
<u>/s/ Hamilton E. James</u> Hamilton E. James	Director
<u>/s/ Richard Jenrette</u> Richard Jenrette	Director
<u>/s/ Rochelle B. Lazarus</u> Rochelle B. Lazarus	Director
<u>/s/ Jay O. Light</u> Jay O. Light	Director
<u>/s/ Brian Mulroney</u> Brian Mulroney	Director
<u>/s/ William G. Parrett</u> William G. Parrett	Director
<u>/s/ Laurence A. Tosi</u> Laurence A. Tosi	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Kathleen Skero</u> Kathleen Skero	Principal Accounting Officer (Principal Accounting Officer)

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

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2012 was approximately \$5,206.1 million, which includes non-voting common units with a value of approximately \$1,324.4 million.

The number of the Registrant's voting common units representing limited partner interests outstanding as of February 22, 2013 was 453,884,100. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of February 22, 2013 was 101,334,234.

DOCUMENTS INCORPORATED BY REFERENCE

None

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### Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (“SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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In this report, references to “Blackstone,” the “Partnership,” “we,” “us” or “our” refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

“Blackstone Funds,” “our funds” and “our investment funds” refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) and collateralized debt obligation (“CDO”) vehicles, and registered investment companies that are managed by Blackstone. “Our carry funds” refer to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone’s Private Equity segment comprises its management of private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (“BCP”) funds, and certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (“Tactical Opportunities”). We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as our “BREDS” funds. We refer to our listed real estate investment trusts as “REITs”. “Our hedge funds” refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-focused funds, which are managed by Blackstone.

“Assets under management” refers to the assets we manage. Our assets under management equals the sum of:

- (a) the fair value of the investments held by our carry funds, REITs and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds, and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of capital raised for our CLOs and the amount of debt and equity outstanding for our CDOs, and



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- (e) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

"Fee-earning assets under management" refers to the assets we manage on which we derive management and / or performance fees. Our fee-earning assets under management equals the sum of:

- (a) for our Private Equity segment funds and carry funds including certain real estate debt investment funds in our Real Estate segment, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs,
- (g) the aggregate par amount of collateral assets, including cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments or the remaining amount of invested capital at cost depending on whether the investment period has or has not expired. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

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### PART I.

#### ITEM 1. BUSINESS

##### Overview

Blackstone is a leading global alternative asset manager and provider of financial advisory services, with assets under management of \$210.2 billion as of December 31, 2012. As stewards of public funds, we look to drive outstanding results for our investors and clients by deploying capital and ideas to help businesses succeed and grow. Our alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) and collateralized debt obligation (“CDO”) vehicles and separately managed accounts. We also provide a wide range of financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services.

All of Blackstone’s businesses use a solutions oriented approach to drive better performance. Since we were founded in 1985, we have cultivated strong relationships with clients in our financial advisory business, where we endeavor to provide objective and insightful solutions and advice that our clients can trust. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses.

Two of our primary limited partner constituencies are corporate and public pension funds. As a result, to the extent our funds perform well, it supports a better retirement for hundreds of thousands of pensioners.

In addition, because we are a global firm with a footprint on nearly every continent, our investments can make a difference around the world. We are committed to making our family of companies stronger in ways that can have transformative impacts on local economies.

As of December 31, 2012, we had 121 senior managing directors and employed approximately 750 other investment and advisory professionals at our headquarters in New York and in 23 other cities around the world. We believe hiring, training and retaining talented individuals coupled with our rigorous investment process has supported our excellent investment record over many years. This track record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

##### 2012 Highlights

###### *Active Investment Pace*

- Our funds, including co-investments, invested or committed \$18.1 billion of capital.
- Invested and committed capital of \$5.0 billion in Private Equity, up 9% from 2011, a record \$9.4 billion in Real Estate and \$3.5 billion in Credit.

###### *Strong Fundraising*

- Gross organic capital inflows of \$34 billion across our businesses.
- Hedge Funds Solutions gross inflows of \$5.3 billion of total assets under management.
- Successfully completed fundraising for our first energy-focused private equity fund, Blackstone Energy Partners L.P., with total fund commitments of \$2.4 billion.
- Raised additional funds in Tactical Opportunities, bringing total commitments to \$1.7 billion.
- Completed fundraising for our seventh global real estate fund, BREP VII, with total fund commitments of \$13.3 billion, making it the biggest real estate fund in the world.

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- Expanded our platform with a new Asia-focused real estate strategy.
- Our credit business, GSO Capital Partners LP (“GSO”) had its first closing on its most recent rescue lending fund, which is already larger than its predecessor fund.

### *Strategic Acquisitions*

- On December 19, 2012, BREDS acquired the investment management business of Capital Trust, Inc. (“Capital Trust”), adding an experienced team with expertise in debt origination and special servicing as well as \$2.3 billion of assets under management as of December 31, 2012.
- GSO acquired Harbourmaster Capital (Holdings) Limited (“Harbourmaster”) in January 2012. The acquisition of Harbourmaster added \$9.8 billion of assets under management (as of the date of the acquisition) to GSO, making GSO one of the largest leveraged loan investors in Europe as well as the United States, and contributing to what we believe is one of the dominant credit investment platforms in the industry today.

### *Successful Debt Raise and Strong Credit Rating*

- In August 2012, we issued \$400 million 10-year 4.75% senior notes and \$250 million 30-year 6.25% senior notes, the proceeds of which we expect to use to further our growth strategy.
- We retain an industry-leading credit rating of A/A+ from S&P / Fitch.

### *Positively Impacting Communities*

- We created a national platform, Invitation Homes, to purchase distressed single family homes and then refurbish, lease and maintain them in neighborhoods across the country. Through Invitation Homes, we are providing a much needed service for communities across the nation. We are removing from the market distressed inventory, which has been suppressing national home prices, creating jobs and providing high quality, affordable housing for families. These efforts are, ultimately, stimulating economies in areas hardest hit by the housing crisis.
- Our partnership with the Government of Uganda and the Aga Khan Fund for Economic Development helped build a 250 megawatt hydroelectric power station on the Nile River in Uganda. The project created 3,000 jobs during construction and doubled the country’s effective generation capacity, eliminating widespread black-outs and driving economic growth for the entire region.
- The Blackstone Charitable Foundation continued to innovate projects and partner with organizations aimed at accelerating start-ups, job growth and economic activity.

### **Business Segments**

Our five business segments are: (a) Private Equity, (b) Real Estate, (c) Hedge Fund Solutions, (d) Credit, and (e) Financial Advisory. Prior to September 30, 2012, the Credit segment had been called Credit Businesses.

Information about our business segments should be read together with “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements and related notes included elsewhere in this Form 10-K.

### *Private Equity*

Our Private Equity segment, established in 1987, is a global business with 140 investment professionals managing \$51.0 billion of assets under management as of December 31, 2012. We are focused on identifying, managing and creating lasting value for our investors. We have raised six general private equity funds as well as two specialized funds focusing on energy and communications-related investments. We are currently investing from our sixth general private equity fund, Blackstone Capital Partners VI (“BCP VI”) and our energy fund,

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Blackstone Energy Partners (“BEP”) which have fund sizes of \$15.2 billion and \$2.4 billion, respectively. In addition, we are in the process of raising and investing capital for Tactical Opportunities which, as of December 31, 2012, had raised \$1.7 billion of capital, and our RMB fund targeting investments in China. From an operation focused in our early years on consummating leveraged buyout acquisitions of U.S. based companies, we have grown into a business pursuing transactions throughout the world and executing not only typical leveraged buyout acquisitions of seasoned companies but also transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions. Our Private Equity segment’s multi-dimensional investment approach is guided by several core investment principles: corporate partnerships, sector expertise, a contrarian bias (for example, investing in out-of-favor / under-appreciated industries), global scope, distressed securities investing, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. Our existing private equity funds, which we refer to collectively as the Blackstone Capital Partners (“BCP”) funds, invest primarily in control-oriented, privately negotiated investments and generally utilize leverage in consummating the investments they make. For more information concerning the revenues and fees we derive from our Private Equity segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

### *Real Estate*

We have become a world leader in real estate investing since launching our first real estate fund in 1994 and, with our 160 investment professionals, manage \$56.7 billion of assets under management as of December 31, 2012. We have managed or continue to manage seven global opportunistic real estate funds, three European focused opportunistic real estate funds, a number of real estate debt investment funds, CDOs, REITs and an acquired Asian real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (“BREP”) funds and our real estate debt investment funds as our “BREDS” funds. In December 2012, we completed the acquisition of Capital Trust’s investment management business with an expertise in debt origination and special servicing, adding \$2.3 billion of total assets under management. Our Real Estate segment’s investing approach is guided by several core investment principles, many of which are similar to our Private Equity segment, including global scope, a significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. For more information concerning the revenues and fees we derive from our Real Estate segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

### *Hedge Fund Solutions*

Our Hedge Fund Solutions group, which is comprised primarily of Blackstone Alternative Asset Management (“BAAM”), was organized in 1990 and manages a broad range of commingled funds of hedge funds and customized vehicles. BAAM’s businesses also include hedge fund seed, long-only, special situations and advisory platforms and BAAM is also building a public funds platform. Working with our clients over the past 22 years, BAAM has developed into a leading manager of institutional funds of hedge funds with 150 investment professionals managing \$46.1 billion of assets under management as of December 31, 2012. BAAM’s overall investment philosophy is to protect and grow investors’ assets through both commingled and custom-tailored investment strategies designed to deliver compelling risk-adjusted returns and mitigate risk. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. Although certain underlying managers that BAAM invests with may utilize leverage in connection with the investments those managers make in their respective underlying hedge funds, BAAM generally does not utilize long-term leverage for the investments it makes in the underlying hedge funds. For more information concerning the revenues and fees we derive from our Hedge Fund Solutions segment, see “—Incentive Arrangements / Fee Structure” in this Item 1.

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### *Credit*

Our credit platform, GSO, with \$56.4 billion of assets under management as of December 31, 2012 and 110 investment professionals, is a leading participant in the leveraged finance markets. The funds we manage or sub-advise include senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. GSO also manages separately managed accounts and registered investment companies including business development companies. These vehicles have investment portfolios comprised of loans and securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with the investments the credit-focused funds, separately managed accounts or registered investment companies make. GSO manages 52 separate CLOs as of December 31, 2012 focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

On January 5, 2012, we purchased Dublin-based Harbourmaster. Harbourmaster is one of Europe's leading investment advisers of secured bank loans that is dedicated to deep, fundamental, long-term analysis of sub-investment grade corporations and investment grade infrastructure projects. Blackstone paid cash of €120.8 million (\$154.5 million) for Harbourmaster's share capital, net of the excess cash held at Harbourmaster at final closing and net of investments owned by Harbourmaster (and its principals) in its managed products.

### *Financial Advisory*

Our Financial Advisory segment comprises our financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds. Our financial advisory businesses are global businesses with 250 professionals around the world.

*Financial and Strategic Advisory Services ("Blackstone Advisory Partners L.P.")*. Our financial and strategic advisory business, "Blackstone Advisory Partners L.P.," has been an independent provider of creative solutions to institutional clients around the globe on complex strategic initiatives for over 25 years. We focus on a wide range of transaction execution capabilities with respect to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory, private placements and distressed sales. Recent clients include Bank of America, Brightpoint, Chinalco, Deutsche Annington, Equifax, GDF Suez, Irish Bank Resolution Corporation, Los Angeles Dodgers, Nestle, Noble Group, NYSE Euronext and Sealed Air. We have recently modified the license of Blackstone Advisory Partners L.P. to permit us to provide capital markets services which include underwriting securities offerings. The success of Blackstone Advisory Partners L.P. has resulted from a highly experienced team focused on our core principles, including protecting client confidentiality, prioritizing our client's interests, avoidance of conflicts and senior-level attention. The 22 senior managing directors in Blackstone Advisory Partners L.P. have an average of over 20 years of experience each in providing corporate finance and mergers and acquisitions advice.

*Restructuring and Reorganization Advisory Services*. Our restructuring and reorganization advisory group is one of the leading advisers in both out-of-court restructurings and in-court bankruptcies. Our restructuring and reorganization team advises companies, creditors, corporate parents, hedge funds, financial sponsors and acquirers of troubled companies. This group is particularly active in large, complex and high-profile bankruptcies and restructurings. Recent clients include Deutsche Annington, Houghton Mifflin Harcourt, Kerzner, Klockner Pentaplast, Lee Enterprises, Los Angeles Dodgers, Mohegan Tribal Gaming Authority, Private Creditor-Investor Committee for Greece, TerreStar, Viridian and Washington Mutual. Senior-level attention, out-of-court focus, global emphasis and the ability to facilitate prompt, creative resolutions are critical ingredients in our restructuring and reorganization advisory approach. We have one of the most seasoned and experienced restructuring teams in the financial services industry, working on a significant share of the major restructuring assignments in this area. Our five senior managing directors have an average of 20 years of experience each in restructuring assignments and employ the skills we feel are crucial to successful restructuring outcomes.

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*Fund Placement Services/Park Hill Group* . Park Hill Group provides fund placement services for private equity funds, real estate funds, venture capital funds and hedge funds. Park Hill Group primarily provides placement services to unrelated third-party sponsored funds. It also assists in raising capital for our own investment funds and provides insights into new alternative asset products and trends. Park Hill Group and our investment funds mutually benefit from the other's relationships with both limited partners and other fund sponsors.

### Financial and Other Information by Segment

Financial and other information by segment for the years ended December 31, 2012, 2011 and 2010 is set forth in Note 20. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

### Pátria Investments

On October 1, 2010, we purchased a 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, "Pátria"). Pátria is a leading Brazilian alternative asset manager and advisory firm that was founded in 1988. As of December 31, 2012, Pátria's alternative asset management businesses managed \$5.9 billion in assets and include the management of private equity funds (\$2.4 billion), real estate funds (\$989.7 million), infrastructure funds (\$2.1 billion) and hedge funds (\$325.6 million). Pátria has approximately 180 employees and is led by a group of four managing partners. Our investment in Pátria is a minority, non-controlling investment, which we record using the equity method of accounting. We have representatives on Pátria's board of directors in proportion to our ownership, but we do not control the day-to-day management of the firm or the investment decisions of their funds, all of which continues to reside with the local Brazilian partners.

Pátria is currently investing its fourth private equity fund, which has \$1.3 billion of commitments. Pátria's private equity business primarily targets high-growth industries in Brazil and has successfully built leading companies through its operational focus and platform building approach. Pátria has raised two real estate funds and is currently making the final investments for the second fund. These real estate funds have focused primarily on Brazilian real estate development, particularly build-to-suit, sale leaseback and buy-lease transactions. Pátria is also currently pursuing more opportunistic real estate investments within Brazil. Pátria has raised two infrastructure funds, the first of which concentrated on renewable energy generation, including early stage projects in Brazil. The second infrastructure fund is a joint venture with Promon Engenharia, a leading engineering consultancy firm within Brazil, with more than \$1.1 billion of commitments to invest in a broad mandate for infrastructure primarily in Brazil. The firm's capital management group manages a variety of liquid funds with strategies focused on currency, sovereign debt, credit, interest rates and equities in Brazil. Pátria's investors are diversified and include Brazilian and international institutional and high-net worth investors.

Pátria's advisory business focuses on mergers and acquisitions, joint ventures, and strategic partnerships, corporate finance and restructuring for Brazilian and multinational companies. In March 2012, Pátria acquired a 50% stake in Capitale, one of the leading independent power trading companies in Brazil.

### Investment Process and Risk Management

We maintain a rigorous investment process across all of our funds, accounts and other investment vehicles. Each fund, account or other vehicle has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund, account or other vehicle will invest.

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### *Private Equity Funds*

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly review committee meeting comprised of senior managing directors of our Private Equity segment. Review committee meetings are led by an executive committee of several senior managing directors of our Private Equity segment. After discussing the contemplated transaction with the deal team, the review committee decides whether to give its preliminary approval to the deal team to continue pursuing the investment opportunity and investigate further any particular issues raised by the review committee during the process.

Once a proposed transaction has reached a more advanced stage, it undergoes a detailed interim review by the review committee of our private equity funds. Following assimilation of the review committee's input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of Stephen A. Schwarzman, Hamilton E. James and selected senior managing directors of our Private Equity segment as appropriate based on the location and sector of the proposed transaction. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies' operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds' portfolio companies.

### *Real Estate Funds*

Our real estate operation has an investment committee similar to that described under “—Private Equity Funds.” The real estate investment committee, which includes Mr. Schwarzman, Mr. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP fund investment. In addition, the committee approves significant illiquid investments by the BREDS funds.

The investment professionals of our real estate funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies' operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds' portfolio companies and investments.

### *Hedge Fund Solutions*

Before deciding to invest in a new hedge fund, our Hedge Fund Solutions team conducts extensive due diligence, including an on-site “front office” review of the underlying manager's performance, investment terms, investment strategy and investment personnel, a “back office” review of the underlying manager's operations, processes, risk management and internal controls, industry reference checks and a legal review of the fund investment structures and legal documents. Once initial due diligence procedures are completed and the investment and other professionals are satisfied with the results of the review, the team will present the potential investment to the Hedge Fund Solutions' Investment Committee. The Investment Committee is comprised of the senior managing directors on the investment team and other senior investment personnel. This committee typically meets three times a month to review, and potentially approve, investment and redemption suggestions. The Hedge Fund Solutions' Executive Committee, chaired by Blackstone Vice Chairman and BAAM Chief Executive Officer, J. Tomilson Hill, reviews and approves all investment allocations where there is limited

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capacity or there are other unusual circumstances. Existing hedge fund investments are reviewed and monitored on a regular and continuous basis, and Mr. Hill and other senior members of our Hedge Fund Solutions team meet bi-weekly with Mr. Schwarzman and Mr. James to review the group's business and affairs.

### *Credit*

Each of our credit-focused funds has an investment committee similar to that described under “—Private Equity Funds.” The investment committees for the credit-focused funds, each of which includes Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover and senior members of the respective investment teams associated with each fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Mr. Goodman, Mr. Smith III and Mr. Ostrover, meet regularly with Mr. Schwarzman and Mr. James to discuss investment and risk management activities and market conditions.

The investment decisions for each of our CLOs and registered investment companies are made by a separate investment committee, which is comprised of the group's senior managing directors and managing directors. With limited exceptions where the portfolio managers are looking to capitalize on market opportunities, the investment committee approves all assets prior to the initial investment by any investment vehicle in such asset. The investment team is staffed by professionals within research, portfolio management, trading, and capital formation to ensure active management of the portfolios and to afford focus on all aspects of our CLOs and registered investment companies. Investment decisions follow a consensus-based approach and require unanimous approval of the investment committee. Industry-focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation. Investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team constantly monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for our investors.

### **Structure and Operation of Our Investment Funds**

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high net worth individuals. Such commitments are generally drawn down from investors on an as needed basis to fund investments over a specified term. All of our private equity and real estate funds are commitment structured funds, except for two of our real estate debt funds which are structured like hedge funds where all of the committed capital is funded on or promptly after the investor's subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our credit-focused funds are generally commitment structured funds or hedge funds where the investor's capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Six of our credit-focused vehicles that we manage or sub-advise are registered investment companies (including business development companies). The CLO vehicles we manage are structured investment vehicles that are generally private companies with limited liability. Most of our funds of hedge funds are structured as funds where the investor's capital is fully funded into the fund upon the subscription for interests in the fund. Our investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds, separately managed accounts and other vehicles are generally advised by a Blackstone entity serving as investment adviser that is registered under the U.S. Investment Advisers Act of



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1940, or “Advisers Act.” Substantially all of the responsibility for the day-to-day operations of each investment vehicle is typically delegated to the Blackstone entity serving as investment adviser pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable vehicle, the calculation of management fees to be borne by investors in our investment vehicles, the calculation of and the manner and extent to which other fees received by the investment adviser from fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment funds and certain rights of termination with respect to our investment advisory agreements. With the exception of the registered funds described below, the investment vehicles themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or “1940 Act,” in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of vehicles formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment vehicles privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are “qualified purchasers” as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act exempts from its registration requirements privately placed investment vehicles whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the United States Securities and Exchange Commission (“SEC”), Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment vehicle all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers.

In some cases, one or more of our investment advisers advises or sub-advises funds registered under the 1940 Act. For example, GSO serves as an investment adviser to three publicly-traded closed-end investment companies and as sub-adviser to three business development companies under the 1940 Act.

In addition to having an investment adviser, each investment fund that is a limited partnership, or “partnership” fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund’s business. Furthermore, all decisions concerning the making, monitoring and disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund’s general partner in its sole discretion. With the exception of certain of our funds of hedge funds and certain credit-focused funds, third-party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds provide that in the event certain “key persons” in our investment funds do not meet specified time commitments with regard to managing the fund (for example, both of Mr. Schwarzman and Mr. James in the case of our private equity funds), then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund’s investment period will automatically terminate and the vote of a simple majority of investors is required to restart it.

## **Incentive Arrangements / Fee Structure**

### ***Management Fees***

The investment adviser of each of our carry funds generally receives an annual management fee based upon a percentage of the fund’s capital commitments and/or invested capital during the investment period and the fund’s invested capital after the investment period, except that the investment advisers to certain of our credit-focused carry funds receive an annual management fee that is based upon a percentage of invested capital or net asset value throughout the term of the fund. The investment adviser of each of our credit-focused funds that are structured like hedge funds, or of our funds of hedge funds and separately managed accounts that invest in hedge funds, generally receives an annual management fee that is based upon a percentage of the fund’s or account’s net asset value. The investment adviser of each of our CLOs and CDOs typically receives annual management fees based upon a percentage of each fund’s total assets or invested capital, subject to certain performance

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measures related to the underlying assets the vehicle owns, and additional management fees which are incentive-based (that is, subject to meeting certain return criteria). The investment adviser of our credit-focused separately managed accounts typically receives annual management fees typically based upon a percentage of each account's net asset value or invested capital. The investment adviser of each of our credit-focused registered investment companies typically receives annual management fees based upon a percentage of each company's net asset value or total managed assets. For additional information regarding the management fee rates we receive, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Revenue Recognition—Management and Advisory Fees".

The management fees we receive from our carry funds are payable on a regular basis (typically quarterly) in the contractually prescribed amounts noted above over the life of the fund and do not depend on the investment performance of the fund. The management fees we receive from our hedge funds have similar characteristics, except that such funds often afford investors increased liquidity through annual, semi-annual or quarterly withdrawal or redemption rights following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years) and the amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor's capital account grows and will proportionately decrease as the net asset value of each investor's capital account decreases. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. In each case the management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days' prior notice. The management fees we receive from the publicly traded investment companies we manage are generally paid on a regular basis (typically quarterly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 30 days' prior notice.

### *Incentive Fees*

The general partners or similar entities of each of our hedge fund structures generally receive performance-based allocation fees ("incentive fees") of 20% of the applicable fund's net capital appreciation per annum, subject to certain net loss carry-forward provisions (known as a "high water mark"). In some cases, the investment adviser of each of our funds of hedge funds and separately managed accounts that invest in hedge funds is entitled to an incentive fee generally ranging from zero to 15% of the applicable fund's net appreciation per annum, subject to a high water mark and in some cases a preferred return. In addition, for the business development companies we sub-advise, we receive incentive fees of 10% of the vehicle's net appreciation per annum, subject to a preferred return. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

### *Carried Interest*

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a "realized gain" basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-focused, real estate debt and multi-asset class investment funds are entitled to a carried interest that ranges from 10% to 15% depending on the specific fund. Net realized income or loss is not netted between or among funds.

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For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 7.0% to 10.0%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund or earlier with respect to our real estate and certain multi-asset class investment funds, as a result of diminished performance of later investments in a carry fund's life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% or 15% in the case of certain of our credit-focused and real estate debt carry funds and certain multi-asset class investment funds) of the fund's net profits over the life of the fund, we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which we are ultimately entitled. This obligation is known as a "clawback" obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans.

Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund's own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. We have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2012, if the various carry funds were liquidated at their current carrying value.

For additional information concerning the clawback obligations we could face, see "—Item 1A. Risk Factors—We may not have sufficient cash to pay back 'clawback' obligations if and when they are triggered under the governing agreements with our investors."

### *Advisory Fees*

Many of our investment advisers, especially private equity and real estate advisers, receive customary fees (for example, acquisition fees or origination fees) upon consummation of many of the funds' transactions, receive monitoring fees from many of the funds' portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees that they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such transaction fees and certain other fees that they receive.

### **Capital Invested In and Alongside Our Investment Funds**

To further align our interests with those of investors in our investment funds, we have invested the firm's capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the limited partner commitments of any particular fund. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Sources of Cash and Liquidity Needs" for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering

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raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In many cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time offer to our senior managing directors and employees a part of the funded or unfunded general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional “co-investments” with the investment funds. Our personnel, as well as Blackstone itself, also have the opportunity to make co-investments, which we refer to as “side-by-side investments,” with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by directors, officers, senior managing directors, employees and certain affiliates of Blackstone. These investments are generally made pursuant to a binding election, subject to certain limitations, made once a year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

## Competition

The asset management and financial advisory industries are intensely competitive, and we expect them to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, access to and retention of qualified personnel, reputation, range of products and services, innovation and price.

*Asset Management* . We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Several of these competitors have significant amounts of capital and many of them have investment objectives similar to ours, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Competitors may also be subject to different regulatory regimes or rules that may provide them more flexibility or better access to pursue transactions or raise capital for their investment funds. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment or be perceived by sellers as otherwise being more desirable bidders, which may provide them with a competitive advantage in bidding for an investment. Lastly, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit.

*Financial Advisory* . Our competitors are other advisory, investment banking and financial firms. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. Our competitors also have the ability to support investment banking, including financial and strategic advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a

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competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions and other strategic advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

In all of our businesses, competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

For additional information concerning the competitive risks that we face, see “Item 1A. Risk Factors—Risks Related to Our Asset Management Business—The asset management business is intensely competitive” and “—Risks Related to Our Financial Advisory Business—We face strong competition from other financial advisory firms”.

### Employees

As of December 31, 2012, we employed approximately 1,780 people, including our 121 senior managing directors and approximately 750 other investment and advisory professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

### Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial and strategic advisory business, is registered as a broker-dealer with the SEC, is a member of the Financial Industry Regulatory Authority, or “FINRA,” and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. Park Hill Group LLC is registered as a broker-dealer with the SEC, is a member of FINRA and is registered as a broker-dealer in numerous states. Park Hill Group Real Estate Group LLC is also registered as a broker-dealer with the SEC, is a member of FINRA and is registered as a broker-dealer in numerous states. Our broker-dealer entities are subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entities. State securities regulators also have regulatory or oversight authority over our broker-dealer entities.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, public and private securities offerings, use and safekeeping of customers’ funds and securities, capital structure, record keeping, the financing of customers’ purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of a self-regulatory organization, we are subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the

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ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

The Blackstone Group International Partners LLP and GSO Capital Partners International LLP ("GSO International") are both authorized and regulated by the Financial Services Authority ("FSA") in the United Kingdom. The U.K. Financial Services and Markets Act 2000, or "FSMA," and rules promulgated thereunder govern all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. Pursuant to the FSMA, certain of our subsidiaries are subject to regulations promulgated and administered by the U.K. Financial Services Authority.

In addition, each of the closed-end mutual funds and investment management companies we manage is registered under the 1940 Act as a closed-end investment company. The closed-end mutual funds and investment management companies and the entities that serve as those vehicles' investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

Blackstone/GSO Debt Funds Management Europe Limited is authorized by the Central Bank of Ireland and is authorized to act as a manager of Irish non-UCITS Collective Investment Schemes. Certain Blackstone operating entities are licensed and subject to regulation by financial regulatory authorities in Japan, Hong Kong, Australia and Singapore.

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities in respect of asset management firms.

Certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments (including, without limitation, India, Japan and Hong Kong), their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our enterprise risk management function further analyzes our business, investment, and other key risks, reinforcing their importance in our environment. We have a compliance group that monitors our compliance with all of the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our Chief Compliance Officer, in coordination with the Chief Legal Officer, supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

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Our compliance group also monitors the information barriers that we maintain between the public and private side of Blackstone's different businesses. We believe that our various businesses' access to the intellectual knowledge and contacts and relationships that reside throughout our firm benefits all of our businesses. In order to maximize that access without compromising our compliance with the legal and contractual obligations to which we are subject, our compliance group oversees and monitors the communications between groups that are on the private side of our information barrier and groups that are on the public side, as well as between different public side groups. Our compliance group also monitors contractual obligations that may be impacted and potential conflicts that may arise in connection with these inter-group discussions.

The firm also has an Internal Audit department with a global mandate and dedicated resources that provides risk-based audit, Sarbanes-Oxley Act compliance, and enterprise risk management functions. Internal Audit aims to provide reasonable, independent, and objective assurance to our management and the board of directors of our general partner that risks are well-managed and that controls are appropriate and effective.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see "Regulatory changes in the United States could adversely affect our business" and "Recent regulatory changes in jurisdictions outside the United States could adversely affect our business" in "Part I. Item 1A. Risk Factors—Risks Related to Our Business."

### Available Information

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the SEC. These filings are available to the public over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal internet address is [www.blackstone.com](http://www.blackstone.com). We make available free of charge on or through [www.blackstone.com](http://www.blackstone.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

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### ITEM 1A. RISK FACTORS

#### Risks Related to Our Business

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition.*

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financial institutions, which had a significant material adverse effect on our investment businesses, particularly our private equity and real estate businesses. During that period, many economies around the world, including the U.S. economy, experienced significant declines in employment, household wealth, and lending. The lack of credit in 2008 and 2009 materially hindered the initiation of new, large-sized transactions for our private equity and real estate segments and adversely impacted our operating results in those periods. While the adverse effects of that period have abated to a degree, global financial markets experienced significant volatility following the downgrade by Standard & Poor's on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. Although world equity and debt markets rose in 2012, volatility remained elevated. Investor risk tolerance continued to shift up and down throughout 2012, dominated in the first half by concerns regarding the stability of the European Monetary Union, and in the second half by the U.S. presidential elections and the contentious fiscal cliff negotiations. There continue to be lingering signs of economic weakness, such as relatively high levels of unemployment in major markets such as the U.S. and Europe, and financial institutions have not yet provided debt financing in amounts and on the terms commensurate with what they provided prior to 2008, particularly in Europe.

Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds' portfolio companies may experience adverse operating performance, decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds' performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund's investment in such portfolio company and a significant negative impact to the investment fund's performance and consequently our operating results and cash



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flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-focused funds. We are unable to predict whether and to what extent economic and market conditions will improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

In addition, our financial advisory business can be materially affected by conditions in the global economy and various financial markets. For example, revenues generated by our financial advisory business are directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our financial advisory services and increasing price competition among financial services companies seeking such engagements.

***Changes in the debt financing markets could negatively impact the ability of our funds and their portfolio companies to obtain attractive financing or re-financing for their investments and could increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

Any recurrence of the significant contraction in the market for debt financing that occurred in 2008 and 2009 or other adverse change to us relating to the terms of such debt financing with, for example, higher rates, higher equity requirements, and/or more restrictive covenants, particularly in the area of acquisition financings for private equity and real estate transactions, would have a material adverse impact on our business. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, our funds' portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the markets make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

***A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.***

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups

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representing investors to increase the percentage of transaction and monitoring fees we share with our investors. To the extent we accommodate such requests, and in certain cases we have and we expect to continue to do so, it would result in a decrease in the amount of fee revenue we earn.

***Our revenue, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.***

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds and fees received by our advisory business can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of our common units and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund.

The timing and receipt of carried interest also varies with the life cycle of our carry funds. During periods in which a relatively large portion of our assets under management is attributable to carry funds and investments in their "harvesting" period, our carry funds would make larger distributions than in the fund-raising or investment periods that precede harvesting. During periods in which a significant portion of our assets under management is attributable to carry funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

With respect to most of our funds of hedge funds and credit-focused and real estate debt funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return

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threshold. Certain of these funds also have “high water marks” whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

We also earn a portion of our revenue from financial advisory engagements, and in many cases we are not paid until the successful consummation of the underlying transaction, restructuring or closing of the fund. As a result, our financial advisory revenue is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. If a transaction, restructuring or funding is not consummated, we often do not receive any financial advisory fees other than the reimbursement of certain out-of-pocket expenses, despite the fact that we may have devoted considerable resources to these transactions.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We use cash to (a) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital for business expansion, (c) pay operating expenses and other obligations as they arise, (d) fund capital expenditures, (e) service interest payments on our debt and repay debt, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our IPO, our \$600 million debt offering in August 2009, our \$400 million debt offering in September 2010 and our \$650 million debt offering in August 2012, our principal sources of cash are: (a) Fee Related Earnings, (b) Realized Performance Fees net of related profit sharing interests that are included in Compensation and (c) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We have also entered into a \$1.1 billion revolving credit facility with a final maturity date of July 13, 2017. Our long-term debt totaled \$1.6 billion in borrowings from the 2009, 2010 and 2012 bond issuances and we had no borrowings outstanding against our \$1.1 billion revolving credit facility as of December 31, 2012. At the end of 2012, we had \$709.5 million in cash, \$1.4 million invested in our Treasury cash management strategies, \$135.3 million invested in liquid Blackstone funds, \$2.0 billion invested in illiquid Blackstone funds and \$146.4 million invested in other investments.

If the global economy and conditions in the financing markets fail to improve or if they worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations and make distributions to our unitholders. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds, or to make quarterly distributions to our unitholders. Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

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***We depend on our founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skill, reputations and business contacts of our founder, Stephen A. Schwarzman, and other key senior managing directors, the information and deal flow they generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds' carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

***Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Most of our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under "Part III. Item 13. Certain Relationships, Related Transactions and Director Independence—Blackstone Holdings Partnership Agreements") and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings partnership units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings partnership units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings partnership units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

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We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See “—Risks Related to United States Taxation—Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business in the future to senior managing directors and other personnel would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

Our plan, to the extent that market conditions permit, is to grow our investment and financial advisory businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (a) the required investment of capital and other resources, (b) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (c) combining or integrating operational and management systems and controls and (d) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

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***If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.***

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, advisory businesses or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (a) the availability of suitable opportunities, (b) the level of competition from other companies that may have greater financial resources, (c) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities, (d) our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays and (e) our ability to identify and enter into mutually beneficial relationships with venture partners. Moreover, even if we are able to identify and successfully complete an acquisition, we may encounter unexpected difficulties or incur unexpected costs associated with integrating and overseeing the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

***The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.***

Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. On May 28, 2010, the U.S. House of Representatives passed legislation, or “May 2010 House bill”, that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or “ISPI”, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. In June 2010, the U.S. Senate considered but did not pass legislation that was generally similar to the legislation passed by the U.S. House of Representatives. More recently, Representative Levin and Senator Harkin (and other representatives) separately introduced similar legislation, or “2012 bills”, that would tax Carried Interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Each of the May 2010 House bill and the 2012 bills also provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations. If we were taxed as a U.S. corporation or held all ISPIs through U.S. corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly

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traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. In its published revenue proposal for 2013, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. The Obama administration proposed similar changes in its published revenue proposals for 2010, 2011 and 2012.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. If any state were to impose a tax upon us as an entity, our distribution to you would be reduced.

### ***Additional proposed changes in the U.S. taxation of businesses could adversely affect us.***

On February 22, 2012, the Obama administration announced its “framework” of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework, if enacted, could adversely affect us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our Carried Interest in respect of such companies. The framework would also reduce the top marginal tax rate on corporations from 35% to 28%. Such a change could increase the effective cost of financing such investments, which could again reduce the value of our Carried Interest. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President’s support for treatment of Carried Interest as ordinary income, as provided in the President’s revenue proposal for 2013 described above. Because the framework did not include specifics, its effect on us is unclear.

### ***The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.***

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (“IFRS”) instead of under accounting principles generally accepted in the United States of America (“U.S. GAAP”). IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board (“IASB”) and are more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. Today, there remain significant and material differences in several key areas between U.S. GAAP and IFRS which would affect Blackstone. Additionally, U.S. GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

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### ***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting, communications and other data processing systems. Our systems may fail to operate properly or become disabled as a result of tampering or a breach of our network security systems or otherwise. In addition, our systems are from time to time subject to cyberattacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will provide protection. If our systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage.

In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where most of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third-party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds' operations and could affect our reputation and hence adversely affect our businesses.

### ***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business. Legislative or regulatory changes could adversely affect us.***

Our business is subject to extensive regulation, including periodic examinations, by governmental and self regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new asset management or financial advisory clients.

In addition, we regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or "Securities Act," the Exchange Act, the 1940 Act and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. See "—Risks Related to Our Organizational Structure—If The Blackstone Group L.P. were deemed an "investment company"



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under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business”. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities and impose burdensome compliance requirements.

The recently enacted Iran Threat Reduction and Syrian Human Rights Act of 2012 (“ITRSHRA”) expands the scope of U.S. sanctions against Iran. More specifically, Section 219 of the ITRSHRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRSHRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. TRW Automotive Holdings Corp. and Travelport Limited, which may be considered our affiliates, have publicly filed and/or provided to us the disclosures reproduced on Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in this report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

### ***Regulatory changes in the United States could adversely affect our business.***

As a result of the financial crisis and highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets and the regulatory environment in which we operate in the United States. There has been active debate over the appropriate extent of regulation and oversight of private investment funds and their managers. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which imposes significant new regulations on almost every aspect of the U.S. financial services industry, including aspects of our business. Among other things, the Dodd-Frank Act includes the following provisions that could have an adverse impact on our ability to conduct our business:

- The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator with the authority to review the activities of non-bank financial companies predominantly engaged in financial activities that are designated as “systemically important.” Such designation is applicable to companies where material distress could pose risk to the financial stability of the United States. On April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The regulation details a three-stage process, with the level of scrutiny increasing at each stage. Initially, the FSOC will apply a broad set of uniform quantitative metrics to screen out financial companies that do not warrant additional review. The FSOC will consider whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1, and a

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short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets (excluding separate accounts) of 10%. A company that meets or exceeds both the asset threshold and one of the other thresholds will be subject to additional review. The review criteria could, and is expected to, evolve over time. While we believe it to be unlikely that we would be designated as systemically important, if such designation were to occur, we would be subject to significantly increased levels of regulation, which includes, without limitation, a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). In connection with the work of the FSOC, on October 31, 2011, the SEC and the Commodity Futures Trading Commission issued a joint final rule on systemic risk reporting designed to assist the FSOC in gathering information from many sectors of the financial system for monitoring risks. This final rule requires large private equity fund advisers, such as Blackstone, to submit reports focusing primarily on the extent of leverage incurred by their funds’ portfolio companies, the use of bridge financing and their funds’ investments in financial institutions.

- The Dodd-Frank Act, under what has become known as the “Volcker Rule,” generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities (collectively, “banking entities”) from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule became effective on July 21, 2012, kicking off a two-year conformance period. By the expiration of the conformance period on July 21, 2014 (and absent an extension that may be granted by the Federal Reserve or an applicable exemption for so-called “permitted activities”), banking entities must have wound down, sold or otherwise conformed their activities, investments and relationships to the requirements of the Volcker Rule. The Federal Reserve may, upon a request by a banking entity, grant up to three separate one-year extensions to the conformance period. In addition, the Dodd-Frank Act includes a special provision to address the difficulty banking entities may experience in conforming investments in a private equity fund that qualifies as an “illiquid fund,” or a fund that as of May 1, 2010 was principally invested in, or was contractually committed to principally invest in, illiquid assets and makes all investments pursuant to, and consistent with, an investment strategy to principally invest in illiquid assets. For such a fund, a banking entity may seek approval for an additional extension of up to five years. While there is substantial uncertainty regarding the availability of extensions and transition period relief, as well as general practical implications under the Volcker Rule, there are likely to be adverse implications on our ability to raise funds from banking organizations as a result of this prohibition.
- The Dodd-Frank Act requires private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act, to maintain extensive records and to file reports if deemed necessary for purposes of systemic assessment by certain governmental bodies. As described elsewhere in this Form 10-K, all of the investment advisers of our investment funds operated in the U.S. are registered as investment advisers with the SEC.
- The Dodd-Frank Act authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions. Such restrictions could limit our ability to recruit and retain investment professionals and senior management executives.

Many of these provisions are subject to further rulemaking and to the discretion of regulatory bodies, such as the FSOC, the Federal Reserve and the SEC.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory

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services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state level regarding "pay to play" practices by investment advisers.

In September 2010, California enacted legislation requiring placement agents who solicit funds from the California state retirement systems, such as the California Public Employees' Retirement System and the California State Teachers' Retirement System to register as lobbyists. In addition to increased reporting requirements, the legislation prohibits placement agents from receiving contingent compensation for soliciting investments from California state retirement systems. New York City has enacted similar measures that require asset management firms and their employees that solicit investments from New York City's five public pension systems to register as lobbyists. Like the California legislation, the New York City measures impose significant compliance obligations on registered lobbyists and their employers, including annual registration fees, periodic disclosure reports and internal recordkeeping, and also prohibit the acceptance of contingent fees. Moreover, other states or municipalities may consider similar legislation as that enacted in California or adopt regulations or procedures with similar effect. These types of measures could materially and adversely impact our fund placement business.

In December 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, finalized a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These new standards, which will be fully phased in by 2019, will require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Compliance with the Basel III standards may result in significant costs to banks, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit. See "—Changes in the debt financing markets may negatively impact the ability of our private equity funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower yielding investments and potentially decrease our net income." In the United States, regulations have been proposed by the federal banking agencies, but they remain pending.

It is impossible to determine the full extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Any changes in the regulatory framework applicable to our business, including the changes described above, may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which we conduct our business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

### ***Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act ("FATCA"), all entities in a broadly defined class of foreign financial institutions ("FFIs") are required to comply with a complicated and expansive reporting regime or, beginning in 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-

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U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or, beginning in 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

### ***Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.***

Similar to the environment in the United States, the current environment in jurisdictions outside the United States in which we operate, in particular Europe, has become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Union (“EU”) Commission has adopted proposals to amend the revised Capital Requirements Directive (“CRD IV”), amending the current controls on remuneration of key employees and risk takers within specific credit institutions and investment firms. Potential amendments include the imposition of a cap on the ratio of fixed and variable elements of remuneration. The expected implementation date in the United Kingdom is anticipated to be during the later months of 2013 and the expectation is that compensation structures for Blackstone personnel would not be affected until 2014. Of our two entities operating in the United Kingdom, The Blackstone Group International Partners LLP, will not be subject to these requirements. GSO Capital Partners International LLP will be subject to the requirements of CRD IV, however due to the nature and size of its activities, we do not anticipate that the quantitative provisions of CRD IV will have a material impact on existing remuneration structures.

In November 2010, the European Parliament voted to approve the EU Directive on Alternative Investment Fund Managers, which establishes a new EU regulatory regime for alternative investment fund managers, including private equity and hedge fund managers. The EU Directive generally applies to managers with a registered office in the EU (or managing an EU-based fund vehicle), but also impacts non EU-based managers, such as our affiliates, that market securities of alternative investment funds in the EU. In general, the EU Directive will have a staged implementation over a period of years beginning in July 2013 for EU-based managers (or EU-based funds) and no later than 2018 for non-EU based managers marketing non-EU-based funds into the EU. Even as early as 2013, we will need to comply with certain provisions of the EU Directive in order to market our investment funds into Europe, including compliance with disclosure and transparency guidelines and asset-stripping restrictions (which prohibit distributions to shareholders for 24 months following closing of an acquisition). Blackstone’s compliance with the EU Directive, which can be no later than 2018, will subject it to a number of additional requirements, including rules relating to the remuneration of certain personnel (principally adopting the provisions of CRD III referred to above), certain capital requirements for alternative investment fund managers, leverage oversight for each investment fund, liquidity management, and retention of depositaries for each investment fund. Compliance with the requirements of the EU Directive will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fund-raising opportunities.

In Denmark and Germany, legislative amendments have been adopted which may limit deductibility of interest and other financing expenses in companies in which our funds have invested or may invest in the future. In Denmark, annual net financing expenses in excess of a threshold amount (Danish krone 21.3 million on a consolidated basis, equal to approximately €2.9 million) will be limited on the basis of earnings before interest and taxes and/or asset tax values. Further, effective for fiscal years starting July 1, 2012 or later, the rules regarding the use of loss carry forward have been amended. Accordingly loss carry forward for each year can only reduce Danish corporate taxable income in excess of Danish krone 7.5 million (equal to approximately

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€1 million) by 60% on a consolidated basis. Losses in excess of the 60% threshold may be carried forward to subsequent years, albeit with similar restrictions. According to the German interest stripping rules, interest expenses exceeding the interest income of the same fiscal year may be deducted only up to 30% of the (adjusted) taxable earnings before interest, taxes, depreciation and amortization of the relevant German business (Betrieb) (subject to specific certain exemptions), while any additional non-deductible interest may, if at all, only be claimed in subsequent years. These measures will most likely adversely affect portfolio companies in those countries in which our funds have investments and limit the benefits of additional investments in those countries.

In December 2011, China's National Development and Reform Commission issued a new circular regulating the activities of private equity funds established in China. The circular includes new rules relating to the establishment, fund-raising and investment scope of such funds; risk control mechanisms; basic responsibilities and duties of fund managers; information disclosure systems; and record filing. Since our RMB fund was established in China, it is subject to these rules, and compliance with the requirements may impose additional expense, affect the manner in which we conduct our business and adversely affect our profitability.

Our investment businesses are subject to the risk that similar measures might be introduced in other countries in which our funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest. Blackstone's non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Growth Capital Council, the British Private Equity and Venture Capital Association and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' use of leverage to finance investments.***

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued \$600 million of ten-year senior notes at a rate of 6.625% per annum, in September 2010, we issued \$400 million of ten-year senior notes at a rate of 5.875% per annum and in August 2012, we issued \$400 million of ten-year senior notes at a rate of 4.75% per annum and \$250 million of thirty-year senior notes at a rate of 6.25% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under “—Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments”. In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them, or that we will be able to refinance outstanding notes when they mature. We have a credit facility which provides for revolving credit borrowings that has a final maturity date of July 13, 2017. As borrowings under the facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce distributions to our unitholders. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds' use of leverage to finance investments.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject the companies, funds and us to the

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risk of third-party litigation arising from investor dissatisfaction with the performance of those investment funds, the activities of our portfolio companies and a variety of other litigation claims. For example, we are currently involved in a suit relating to our initial public offering, as well as a suit that alleges that we, along with other private equity firms and investment banks, have violated antitrust laws. From time to time we, our funds and our portfolio companies have been and may be subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and/or attempt to enjoin them. Please see “—Legal Proceedings” below for a discussion of certain proceedings to which we are currently a party.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Our financial advisory activities may also subject us to the risk of liabilities to our clients and third parties, including our clients’ stockholders, under securities or other laws in connection with corporate transactions on which we render advice.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and advisory clients and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm. Fraud and other deceptive practices or other misconduct at our portfolio companies could similarly subject us to liability and reputational damage and also harm performance.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest or our financial advisory clients. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

In recent years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission have devoted greater resources to enforcement of the Foreign Corrupt Practices Act (“FCPA”). In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the

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FCPA, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial position or the market value of our common units.

In addition, we will also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest. For example, failures by personnel at our portfolio companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation. Such misconduct might undermine our due diligence efforts with respect to such companies and could negatively affect the valuation of a fund's investments.

### **Risks Related to Our Asset Management Business**

***Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.***

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund's life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds' performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee revenue. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease our revenue. A significant number of fund sponsors have recently decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance.

***Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.***

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during 2008 and 2009, many third party investors that invest in alternative assets and have historically invested in our investment funds experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations during that period from their existing private equity and real estate

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portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, which significantly limited their ability to make new commitments to third party managed investment funds such as those managed by us. Our ability to raise new funds could similarly be hampered if the general appeal of private equity and alternative investments were to decline. An investment in a limited partner interest in a private equity fund is more illiquid and the returns on such investment may be more volatile than an investment in securities for which there is a more active and transparent market. Private equity and alternative investments could fall into disfavor as a result of concerns about liquidity and short-term performance. Such concerns could be exhibited, in particular, by public pension funds, which have historically been among the largest investors in alternative assets. Many public pension funds are significantly underfunded and their funding problems have been exacerbated by the recent economic downturn. Concerns with liquidity could cause such public pension funds to reevaluate the appropriateness of alternative investments. Although economic conditions have improved and many investors have increased the amount of commitments they are making to alternative investment funds, there is no assurance that this will continue. Moreover, as some existing investors cease or significantly curtail making commitments to alternative investment funds, we may need to identify and attract new investors in order to maintain or increase the size of our investment funds. There are no assurances that we can find or secure commitments from those new investors. If economic conditions were to deteriorate or if we are unable to find new investors, we might raise less than our desired amount for a given fund. Further, as we seek to expand into other asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. In addition, certain institutional investors have publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. Although we have no obligation to modify any of our fees with respect to our existing funds, we may experience pressure to do so in our funds. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-focused funds. We determine the value of the investments of each of our private equity, real estate and credit-focused funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-focused fund is generally determined using several methodologies described in the investment funds' valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, if any, replacement costs and capitalization rates ("cap rates") analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of



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the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value. Private investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. These valuation methodologies involve a significant degree of management judgment.

In certain cases debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment. For example, as to investments that we share with another sponsor, we may apply a different valuation methodology than the other sponsor does or derive a different value than the other sponsor has derived on the same investment. These differences might cause some investors to question our valuations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

***The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.***

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- market conditions during previous periods were significantly more favorable for generating positive performance, particularly in our private equity and real estate businesses, than the market conditions we experienced in the past three years and may continue to experience for the foreseeable future,
- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments,

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- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments,
- in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in alternative investment funds and high liquidity in debt markets,
- our investment funds' returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves (including, for example, particularly favorable borrowing conditions in the debt markets during 2005, 2006 and early 2007), and our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions, and
- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

### *Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.*

Many of our carry funds' investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute as much as 70% or more of a portfolio company's or real estate asset's total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those businesses' investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities,
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt,
- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it,
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth, and

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- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005, 2006 and 2007 that utilized significant amounts of leverage subsequently experienced severe economic stress and, in certain cases, defaulted on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn during 2008 and 2009.

When our BCP and BREP funds' existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If a limited availability of financing for such purposes were to persist for an extended period of time, when significant amounts of the debt incurred to finance our private equity and real estate funds' existing portfolio investments came due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest and our credit-focused funds, CLOs and CDOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost—and the timing and magnitude of such losses may be accelerated or exacerbated—in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

### ***The asset management business is intensely competitive.***

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds). A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do,
- some of our funds may not perform as well as competitors' funds or other available investment products,
- several of our competitors have significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit,

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- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities,
- some of our competitors may be subject to less regulation and accordingly may have more flexibility to undertake and execute certain businesses or investments than we can and/or bear less compliance expense than we do,
- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors,
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make,
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into our various businesses, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition,
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do,
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment,
- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages, and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

***The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.***

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources

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available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.***

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer—potentially for a considerable period of time—sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

***We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small and medium-sized investments.***

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as “consortium transactions” due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in “—Our investment funds make investments in companies that we do not control.”

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

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### *We often pursue investment opportunities that involve business, regulatory, legal or other complexities.*

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

### *Our investment funds make investments in companies that we do not control.*

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in “—We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small and medium-sized investments”) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

### *We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.*

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds’ portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another,
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity,
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation,
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments,
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance,
- political hostility to investments by foreign or private equity investors,
- less publicly available information in respect of companies in non-U.S. markets,
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms,
- higher rates of inflation,
- higher transaction costs,

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- difficulty in enforcing contractual obligations,
- fewer investor protections,
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments, and
- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

***We may not have sufficient cash to pay back “clawback” obligations if and when they are triggered under the governing agreements with our investors.***

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds and multi-asset class investment funds), as a result of diminished performance of later investments in any carry fund’s life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% or 15% in the case of certain of our credit-focused and real estate debt carry funds and certain multi-asset class investment funds) of the fund’s net profits over the life of the fund, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund’s own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

***Investments by our investment funds will in most cases rank junior to investments made by others.***

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also,

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during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.***

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years), subject to the applicable fund's specific redemption provisions. In a declining market, the pace of redemptions and consequent reduction in our assets under management could accelerate. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice. In addition, the boards of directors of the investment management companies we manage, or the adviser in respect of the registered business development company we sub-advise, could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third-party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a "clawback" obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds provide that in the event certain "key persons" in our investment funds do not meet specified time commitments with regard to managing the fund (for example, both of Stephen A. Schwarzman and Hamilton E. James in the case of our private equity funds), then investors in certain funds have the right to vote to terminate the investment period by a simple majority vote in accordance with specified procedures, accelerate the withdrawal of their capital on an investor-by-investor basis, or the fund's investment period will automatically terminate and the vote of a simple majority of investors is required to restart it. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an "assignment," without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end mutual funds, each investment fund's investment management agreement must be approved annually by the independent members of such investment fund's board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.



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### ***Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

### ***Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.***

Because of our various lines of asset management and advisory businesses, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment or issuers that are our advisory clients. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

### ***Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, we may allocate an investment opportunity that is appropriate for two or more investment funds in a manner that excludes one or more funds or results in a disproportionate allocation based on factors or criteria that we determine, such as sourcing of the transaction, the relative amounts of capital available for investment in each fund, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to the respective funds and other considerations deemed relevant by us. Also, our decision to pursue a fund investment opportunity could preclude our ability to obtain a related advisory assignment, and vice versa. We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. We may also cause different funds that we manage to purchase different classes of securities in the same portfolio company. For example, one of our CLO funds could acquire a debt security issued by the same company in which one of our private equity funds owns common equity securities. A direct conflict of interest could arise between the debt holders and the equity holders if such a company were to develop insolvency concerns, and that conflict would have to be carefully managed by us. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific

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investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. Lastly, in certain, infrequent instances we may purchase an investment alongside one of our investment funds or sell an investment to one of our investment funds and conflicts may arise in respect of the allocation, pricing and timing of such investments and the ultimate disposition of such investments. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

### ***Risk management activities may adversely affect the return on our funds' investments.***

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

### ***Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.***

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

### ***Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.***

Certain of our investment funds, especially our credit-focused funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's

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discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation.

***Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.***

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, over 80% of the investments of our real estate funds (based on current fair values) are in office building, hotel and shopping center assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

***The financial projections of our portfolio companies could prove inaccurate.***

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections prepared by the management of such portfolio companies. These projected operating results will normally be based primarily on judgments of the management of the portfolio companies. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections that were used to establish a given portfolio company's capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds' performance to fall short of our expectations.

***Contingent liabilities could harm fund performance.***

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund's performance.

***Our funds may be forced to dispose of investments at a disadvantageous time.***

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have only a limited ability to extend the term of the fund with the consent of fund

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investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

### ***Hedge fund investments are subject to numerous additional risks.***

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-focused and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.
- Generally, there are few limitations on the execution of the hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.
- Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market

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or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets.

### Risks Related to Our Financial Advisory Business

#### *Financial advisory fees are not long-term contracted sources of revenue and are not predictable.*

The fees earned by our financial advisory business are typically payable upon the successful completion of a particular transaction or restructuring. A decline in our financial advisory engagements or the market for advisory services would adversely affect our business.

Our financial advisory business operates in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue generating engagement typically is separately solicited, awarded and negotiated. In addition, many businesses do not routinely engage in transactions requiring our services. As a consequence, our fee-paying engagements with many clients are not predictable and high levels of financial advisory revenue in one quarter are not necessarily predictive of continued high levels of financial advisory revenue in future periods. In addition to the fact that most of our financial advisory engagements are single, non-recurring engagements, we lose clients each year as a result of a client's decision to retain other financial advisors, the sale, merger or restructuring of a client, a change in a client's senior management and various other causes. Moreover, in any given year our financial advisory engagements may be limited to a relatively smaller number of clients and an even smaller number of those clients may account for a disproportionate percentage of our financial advisory revenues in any such year. As a result, the adverse impact on our results of operations of one lost engagement or the failure of one transaction or restructuring on which we are advising to be completed could be significant. Revenue volumes in our financial advisory business tend to be affected by economic and capital market conditions, with greater merger activity—and therefore higher revenues in our Financial and Strategic Advisory Services business—generally resulting when the economy is growing, and more bankruptcies and restructurings—and therefore higher revenues in our Restructuring and Reorganization Advisory Services business—generally resulting in weak economic periods. Accordingly, our financial advisory revenue can fluctuate up or down considerably depending on economic conditions.

The fees earned by Park Hill Group, our fund placement business, are generally recognized by us for accounting purposes upon the successful subscription by an investor in a client's fund and/or the closing of that fund. However, those fees are typically actually paid by a Park Hill Group client over a period of time (for example, two to three years) following such successful subscription by an investor in a client's fund and/or the closing of that fund with interest. There is a risk that during that period of time, Park Hill Group may not be able to collect on all or

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a portion of the fees Park Hill is due for the placement services it has already provided to such client. For instance, a Park Hill client's fund may be liquidated prior to the time that all or a portion of the fees due to Park Hill for its placement services are due to be paid. Moreover, to the extent fewer assets are raised for funds or interest by investors in alternative asset funds declines, the fees earned by Park Hill Group would be adversely affected.

### ***We face strong competition from other financial advisory firms.***

The financial advisory industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our employees, transaction execution, our products and services, innovation and reputation and price. We have always experienced intense competition over obtaining advisory mandates, and we may experience pricing pressures in our financial advisory business in the future as some of our competitors seek to obtain increased market share by reducing fees. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

### ***Underwriting activities expose us to risks.***

We have recently modified the license of Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial advisory business, to permit us to act as an underwriter in securities offerings. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

## **Risks Related to Our Organizational Structure**

### ***Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business.***

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less

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than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding limited liability matters. As of December 31, 2012, Blackstone Partners L.L.C., an entity wholly owned by our personnel and others who are limited partners, had 55.3% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.

***Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.***

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders' voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under “—Our common unitholders do not elect our general partner or vote on our general partner's directors and have limited ability to influence decisions regarding our business”, our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.***

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (a) that a majority of the board of directors of our general partner consist of independent directors, (b) that we have a nominating/corporate governance committee that is composed entirely of independent directors (c) that we have a compensation committee that is composed entirely of independent directors, and (d) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

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***Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.***

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders,
- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds and certain of our subsidiaries engaged in our advisory business have contractual duties to their clients, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow,
- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments,
- other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us,
- our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law,
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement,
- our general partner determines how much debt we incur and that decision may adversely affect our credit ratings,
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us,
- our general partner controls the enforcement of obligations owed to us by it and its affiliates, and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See “Part III. Item 13. Certain Relationships, Related Transactions and Director Independence” and “Part III. Item 10. Directors, Executive Officers and Corporate Governance—Partnership Management and Governance—Conflicts Committee.”



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***Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.***

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable,” then our general partner is entitled to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See “Part III. Item 10. Directors, Executive Officers and Corporate Governance—Partnership Management and Governance—Conflicts Committee.”

***The control of our general partner may be transferred to a third party without common unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner

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may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone's track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

***We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by cash flow from operations and available liquidity, our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.***

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to our unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner, and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly-owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly-owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware

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Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

***The amortization of finite-lived intangible assets and non-cash equity-based compensation results in substantial expenses that may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.***

As part of the reorganization related to our IPO we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. As of December 31, 2012, we have \$598.5 million of finite-lived intangible assets (in addition to \$1.7 billion of goodwill), net of accumulated amortization. These finite-lived intangible assets are from the IPO and other business transactions. We are amortizing these finite-lived intangibles over their estimated useful lives, which range from four to twenty years, using the straight-line method, with a weighted-average remaining amortization period of 8.6 years as of December 31, 2012. In addition, as part of the reorganization at the time of our IPO, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units (which was \$31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods. These expenses may increase the net loss we record in certain periods or cause us to record a net loss in periods during which we would otherwise have recorded net income.

***We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.***

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of The Blackstone Group L.P.'s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the "corporate taxpayers," would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

One of the corporate taxpayers has entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayer to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and others may

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continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone Holdings units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty's continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If The Blackstone Group L.P. were deemed an "investment company" under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

An entity will generally be deemed to be an "investment company" for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and financial advisory firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an "orthodox" investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings partnerships and are vested with all management and control over the Blackstone Holdings partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P.'s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of

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the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

### Risks Related to Our Common Units

#### *Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. We had a total of 453,884,100 voting common units outstanding as of February 22, 2013. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings owned an aggregate of 554,033,956 Blackstone Holdings Partnership Units outstanding as of February 22, 2013. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that requires us to register these common units under the Securities Act and we have filed registration statements that cover the delivery of common units issued upon exchange of Blackstone Holdings partnership units. See "Part III. Item 13. Certain Relationships, Related Transactions and Director Independence—Transactions with Related Persons—Registration Rights Agreement". While the partnership agreements of the Blackstone Holdings partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People's Republic of China, pursuant to which we sold to it 101,334,234 non-voting common units for \$3.00 billion at a purchase price per common unit of \$29.605. Beijing

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Wonderful Investments is able to sell these common units subject, with respect to a portion of the units, to certain transfer restrictions. We have agreed to provide Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 22, 2013, we had granted 30,183,514 outstanding deferred restricted common units and 19,724,106 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under The Blackstone Group L.P. 2007 Equity Incentive Plan (“2007 Equity Incentive Plan”). The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly-owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 160,797,571 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 22, 2013. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings partnerships units, and which may be exchangeable for our common units.

***The market price of our common units may be volatile, which could cause the value of your investment to decline.***

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

### **Risks Related to United States Taxation**

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or “IRS,” and the U.S. Treasury Department,

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frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the “Qualifying Income Exception”), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under “—The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units”, the U.S. Congress recently considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders’ beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.***

The value of our common units depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

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If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See “—The U.S. Congress has considered legislation that, if enacted, would have (a) for taxable years beginning ten years after the date of enactment, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (b) taxed individual holders of common units with respect to certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, we could incur a material increase in our tax liability and a substantial portion of our income could be taxed at a higher rate to the individual holders of our common units.” For example, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

***Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the 1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder’s tax basis in the unit. That treatment contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder’s tax basis in the units), but will instead report the holder’s allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or “CFC,” and a Passive Foreign Investment Company, or “PFIC,” may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.



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***The Blackstone Group L.P.'s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder's tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

***If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee's acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected

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income with respect to non-U.S. holders, or “ECI.” Moreover, dividends paid by an investment that we make in a real estate investment trust, or “REIT,” that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

### ***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our investment activities, we will be treated as deriving income that constitutes “unrelated business taxable income,” or “UBTI.” Consequently, a holder of common units that is a tax-exempt organization may be subject to “unrelated business income tax” to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

### ***We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders’ tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

### ***Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

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*We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that common unitholders may be required to file amended income tax returns.*

It will most likely require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each common unitholder.

### ***Certain U.S. holders of common units are subject to additional tax on “net investment income.”***

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on “net investment income” (or undistributed “net investment income,” in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person’s adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in the Partnership will be included in a U.S. holder’s “net investment income” subject to this Medicare tax.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. As of December 31, 2012, we lease our offices in Atlanta, Beijing, Boston, Chicago, Dallas, Dubai, Dublin, Düsseldorf, Frankfurt, Hong Kong, Houston, Istanbul, London, Los Angeles, Menlo Park, Mumbai, Paris, San Francisco, Santa Monica, Seoul, Shanghai, Singapore, Sydney and Tokyo. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

### **ITEM 3. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “Item 1A. Risk Factors” above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts ( *Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.* ). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. After the conclusion of discovery, the plaintiffs filed an amended complaint in June 2012, in which the plaintiffs seek damages on behalf of public shareholders that tendered their shares in connection with 17 leveraged buyouts. The court has dismissed claims against Blackstone with respect to four of these transactions because Blackstone was released from any and all claims by the same shareholders in prior litigation. Defendants have filed motions for summary judgment. The court has not yet established a schedule for determining whether to certify the shareholder class proposed by plaintiffs.

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In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone's June 2007 initial public offering. These suits were subsequently consolidated into one complaint ( *Landmen Partners Inc. v. The Blackstone Group L.P., et al.* ) filed in the United States District Court for the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone's Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone's former Senior Chairman), Hamilton E. James (Blackstone's President and Chief Operating Officer) and Michael A. Puglisi (Blackstone's Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) one private equity investment would be adversely affected by trends in mortgage default rates, particularly for sub-prime mortgage loans, (b) another private equity investment was adversely affected by the loss of an exclusive manufacturing agreement, and (c) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone's real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1).

In September 2009 the District Court judge dismissed the complaint with prejudice, ruling that even if the allegations in the complaint were assumed to be true, the alleged omissions were immaterial. Analyzing both quantitative and qualitative factors, the District Court reasoned that the alleged omissions were immaterial as a matter of law given the size of the investments at issue relative to Blackstone as a whole, and taking into account Blackstone's structure as an asset manager and financial advisory firm.

In February 2011, a three-judge panel of the Second Circuit reversed the District Court's decision, ruling that the District Court incorrectly found that plaintiffs' allegations were, if true, immaterial as a matter of law. The Second Circuit disagreed with the District Court, concluding that the complaint "plausibly" alleged that the initial public offering documents omitted material information concerning two of Blackstone funds' individual investments and inadequately disclosed information relating to market risks to their real estate investments. Because this was a motion to dismiss, in reaching this decision the Second Circuit accepted all of the complaint's factual allegations as true and drew every reasonable inference in plaintiffs' favor. The Second Circuit did not consider facts other than those in the plaintiffs' complaint. On June 28, 2011, defendants filed a petition for writ of certiorari with the United States Supreme Court, which was subsequently denied. On August 8, 2011, defendants filed their answer to the complaint and discovery commenced and is continuing in this action.

In June 2011, three related suits ( *Walker, Truesdell, Roth & Assocs. v. The Blackstone Group L.P., et al.* ) were filed against Blackstone, various Blackstone entities including some of its private equity and real estate funds, and specified Blackstone personnel relating to the sale of Extended Stay Hotels in June 2007 by certain entities in which such Blackstone funds owned significant equity interests (the "2007 Sale"). Other defendants in such suits include the buyer of Extended Stay, financial advisers to both the sellers and the buyer and specified lenders for the purchase of Extended Stay. Extended Stay subsequently filed for bankruptcy in 2009, at which time it was still owned by the buyer pursuant to the 2007 Sale. The suits, which are in the U.S. Bankruptcy Court for the Southern District of New York, were brought by a litigation trust for the benefit of creditors of Extended Stay and allege that Extended Stay was rendered insolvent by the 2007 Sale. One suit includes asserted claims of fraudulent conveyance and seeks to recover \$2.1 billion allegedly transferred to the sellers in the 2007 Sale. The other two suits contain the same allegations as the first suit, assert claims for breach of fiduciary duty, unjust enrichment, illegal distributions and other claims, and seek \$2.1 billion in compensatory damages and \$6.3 billion in punitive damages.

Blackstone believes that all of the foregoing suits are totally without merit and intends to defend them vigorously.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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### PART II.

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common units representing limited partner interests are traded on the New York Stock Exchange ("NYSE") under the symbol "BX." Our common units began trading on the NYSE on June 22, 2007.

The number of holders of record of our common units as of February 22, 2013 was 64. This does not include the number of unitholders that hold shares in "street name" through banks or broker-dealers.

The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE:

	Sales Price			
	2012		2011	
	High	Low	High	Low
First Quarter	\$17.25	\$14.10	\$18.95	\$14.23
Second Quarter	\$16.06	\$11.13	\$19.63	\$15.95
Third Quarter	\$15.62	\$12.50	\$17.78	\$11.50
Fourth Quarter	\$15.84	\$13.31	\$15.74	\$10.51

#### Cash Distribution Policy

With respect to fiscal year 2012, we have paid to common unitholders distributions of \$0.10 per common unit in respect of each of the first three quarters and an additional distribution of \$0.42 per common unit in respect of the fourth quarter (aggregating \$0.72 per common unit for fiscal year 2012). We have also paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships distributions of \$0.10 per Blackstone Holdings partnership unit in respect of each of the first three quarters and a distribution of \$0.58 per Blackstone Holdings partnership unit in respect of the fourth quarter (aggregating \$0.88 per Blackstone Holdings partnership unit for fiscal year 2012).

With respect to fiscal year 2011, we paid distributions of \$0.10 per common unit in respect of each of the first three quarters and \$0.22 per common unit in respect of the fourth quarter (aggregating \$0.52 per common unit for fiscal year 2011). With respect to fiscal year 2011, we paid distributions of \$0.10 per unit in respect of each of the first three quarters and an additional distribution of \$0.28 per Blackstone Holdings partnership unit in respect of the fourth quarter (aggregating \$0.58 per Blackstone Holdings partnership unit for fiscal year 2011).

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of

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its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly-owned subsidiaries, we fund distributions by The Blackstone Group L.P., if any, in three steps:

- First, we cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P.'s wholly-owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph),
- Second, we cause The Blackstone Group L.P.'s wholly-owned subsidiaries to distribute to The Blackstone Group L.P. their share of such distributions, net of the taxes and amounts payable under the tax receivable agreement by such wholly-owned subsidiaries, and
- Third, The Blackstone Group L.P. distributes its net share of such distributions to our common unitholders on a pro rata basis.

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 16. "Related Party Transactions" in the "Notes to Consolidated Financial Statements" in Part II. Item 8. Financial Statements and Supplementary Data, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

In addition, the partnership agreements of the Blackstone Holdings partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly-owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Blackstone Holdings partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received

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a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

### Unit Repurchases in the Fourth Quarter of 2012

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended December 31, 2012, no units were repurchased. See “—Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 14. Net Loss Per Common Unit” and “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Needs” for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Holdings units.

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### ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of financial condition and income data as of and for the five years ended December 31, 2012 have been derived from our consolidated financial statements. The audited Consolidated Statements of Financial Condition as of December 31, 2012 and 2011 and the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010 are included elsewhere in this Form 10-K. The audited Consolidated Statements of Financial Condition as of December 31, 2010, 2009 and 2008 and the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with “—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
<b>Revenues</b>					
Management and Advisory Fees, Net	\$2,030,693	\$1,811,750	\$1,584,748	\$ 1,482,226	\$ 1,476,357
Performance Fees	1,593,052	1,182,660	937,834	221,090	(1,247,320)
Investment Income (Loss)	350,194	213,323	561,161	40,604	(622,877)
Interest and Dividend Revenue and Other	45,502	44,843	35,599	29,779	44,479
<b>Total Revenues</b>	<u>4,019,441</u>	<u>3,252,576</u>	<u>3,119,342</u>	<u>1,773,699</u>	<u>(349,361)</u>
<b>Expenses</b>					
Compensation and Benefits	2,605,244	2,738,425	3,610,189	3,777,606	3,859,787
General, Administrative and Other	548,738	566,313	466,358	443,573	440,776
Interest Expense	72,870	57,824	41,229	13,384	23,008
Fund Expenses	33,829	25,507	26,214	7,296	63,031
<b>Total Expenses</b>	<u>3,260,681</u>	<u>3,388,069</u>	<u>4,143,990</u>	<u>4,241,859</u>	<u>4,386,602</u>
<b>Other Income (Loss)</b>					
Reversal of Tax Receivable Agreement Liability	—	197,816	—	—	—
Net Gains (Losses) from Fund Investment Activities	256,145	14,935	501,994	176,694	(872,336)
<b>Total Other Income (Loss)</b>	<u>256,145</u>	<u>212,751</u>	<u>501,994</u>	<u>176,694</u>	<u>(872,336)</u>
<b>Income (Loss) Before Provision (Benefit) for Taxes</b>	1,014,905	77,258	(522,654)	(2,291,466)	(5,608,299)
<b>Provision (Benefit) for Taxes</b>	185,023	345,711	84,669	99,230	(14,145)
<b>Net Income (Loss)</b>	829,882	(268,453)	(607,323)	(2,390,696)	(5,594,154)
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	103,598	(24,869)	87,651	131,097	(632,495)
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	99,959	7,953	343,498	(14,328)	(159,828)
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	407,727	(83,234)	(668,444)	(1,792,174)	(3,638,799)
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>	<u>\$ (370,028)</u>	<u>\$ (715,291)</u>	<u>\$ (1,163,032)</u>



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	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>Net Income (Loss) Per Common Unit, Basic and Diluted</b>					
Common Units	<u>\$0.41</u>	<u>\$(0.35)</u>	<u>\$(1.02)</u>		
Common Units Entitled to Priority Distributions				<u>\$(2.46)</u>	<u>\$(4.32)</u>
Common Units Not Entitled to Priority Distributions				<u>\$(3.71)</u>	<u>\$(3.06)</u>
<b>Distributions Declared (a)</b>	<u>\$0.52</u>	<u>\$ 0.62</u>	<u>\$ 0.60</u>	<u>\$ 0.90</u>	<u>\$ 1.20</u>

- (a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal year 2012, we declared a final fourth quarter distribution per common unit of \$0.42 which was paid in February 2013.

	As of December 31,				
	2012	2011	2010	2009	2008
<b>Statement of Financial Condition Data</b>					
Total Assets (a)	\$28,931,552	\$21,909,129	\$18,844,605	\$9,409,024	\$9,489,057
Senior Notes	\$ 1,670,853	\$ 1,051,705	\$ 1,010,911	\$ 588,624	\$ —
Total Liabilities (a)	\$17,716,605	\$12,656,843	\$10,591,248	\$2,865,491	\$3,370,612
Redeemable Non-Controlling Interests in Consolidated Entities	\$ 1,556,185	\$ 1,091,833	\$ 659,390	\$ 526,311	\$ 362,462
Partners' Capital	\$ 9,658,762	\$ 8,160,453	\$ 7,593,967	\$6,017,222	\$5,755,983

- (a) The increase in total assets and total liabilities from December 31, 2009 to December 31, 2010 is principally due to the acquisition, in our Credit segment, of certain management agreements of certain CLO vehicles which, under GAAP accounting guidance, are required to be consolidated. The increase in total assets and total liabilities from December 31, 2011 to December 31, 2012 is principally due to the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser and the resultant GAAP required consolidation of certain managed CLO vehicles.

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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s consolidated financial statements and the related notes included within this Annual Report on Form 10-K.*

#### Our Business

Blackstone is one of the largest independent managers of private capital in the world. We also provide a wide range of financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into five business segments:

- **Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. We refer to these funds collectively as our Blackstone Capital Partners ("BCP") funds. We also manage certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts ("Tactical Opportunities"). Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.
- **Real Estate.** We have become a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage seven global opportunistic real estate funds, three European focused opportunistic real estate funds, a number of real estate debt investment funds, CDOs, REITs and an acquired Asian real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ("BREP") funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ("BREDS") funds. In December 2012, we completed the acquisition of Capital Trust's investment management business with an expertise in debt origination and special servicing.
- **Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ("BAAM"). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.
- **Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP ("GSO"). GSO is a world leader in credit-focused products and manages a variety of credit-focused products including senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds and collateralized loan obligation ("CLO") vehicles. Prior to September 30, 2012, this segment had been called Credit Businesses.
- **Financial Advisory .** Our Financial Advisory segment serves a diverse and global group of clients with financial and strategic advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial and strategic advisory services, restructuring and reorganization advisory services and fund placement services for

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alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

### Business Environment

World equity and debt markets rose in 2012, although volatility remained elevated. Investor risk tolerance continued to shift up and down throughout the year, dominated in the first half by concerns regarding the stability of the European Monetary Union, and in the second half by the U.S. presidential elections and the contentious fiscal cliff negotiations. The global MSCI index rose 13% in 2012, with relatively consistent gains across regions.

In the U.S., the S&P 500 index rose 13% as well. The economic recovery slowly advanced, helped by improving housing prices and gains in employment, although the unemployment rate remains elevated, and as a result, the Federal Reserve has remained committed to accommodative policy, tying interest rates to specific levels of employment and inflation.

Credit indices rose sharply in 2012, with the High Yield Index up 15% and the Leveraged Loan index rising 9%. Benchmark rates remain at/near historic lows and high yield spreads narrowed nearly 200 basis points. Debt capital markets were very strong and issuance rose to record levels in both the investment grade and leveraged finance markets. Equity capital markets saw increased issuance levels in 2012, although were more sensitive to broader global macroeconomic conditions.

In commercial real estate, performance metrics remain healthy across all of our real estate investment types. In the office and industrial sectors, limited supply and a decrease in vacancies has resulted in gradual increases in rental rates. In the retail sector, mall retailers have experienced sustained growth in same-store sales. Home prices have increased 5.8% nationally in 2012. In addition, hospitality metrics remain positive, with U.S. industry RevPAR ("Revenue per Available Room") up 6.8% for 2012.

Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Western Europe, Asia and, to a lesser extent, elsewhere in the world.

### Significant Transactions

On January 5, 2012, GSO completed the acquisition of Harbourmaster, a leading European leveraged loan manager and adviser.

In August 2012, Blackstone issued \$400 million of 4.75% senior notes due 2023 and \$250 million of 6.25% senior notes due 2042.

### Key Financial Measures and Indicators

Our key financial measures and indicators are discussed below.

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### Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business—Incentive Arrangements / Fee Structure” and “—Critical Accounting Policies, Revenue Recognition” for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees*—Management and Advisory Fees are comprised of management fees, including base management fees, transaction and other fees, management fee reductions and offsets, and advisory fees.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital or, in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Consolidated Statements of Financial Condition.

*Performance Fees*—Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance

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resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the terms of the fund.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions, from its non-consolidated funds. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue*—Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue*—Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### **Expenses**

*Compensation and Benefits—Compensation*—Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

*Compensation and Benefits—Performance Fee*—Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

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*Other Operating Expenses*— Other operating expenses represent general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses*— The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third-party expenses.

### *Non-Controlling Interests in Consolidated Entities*

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds and side-by-side entities held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P. Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### *Non-Controlling Interests in Blackstone Holdings*

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

### *Income Taxes*

The Blackstone Holdings partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of the Partnership and the Blackstone Holdings partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the consolidated financial statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between

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the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. On May 28, 2010, the U.S. House of Representatives passed legislation, or "May 2010 House bill", that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or "ISPI", as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. In June 2010, the U.S. Senate considered but did not pass legislation that was generally similar to the legislation passed by the U.S. House of Representatives. More recently, Representative Levin and Senator Harkin (and other representatives) separately introduced similar legislation, or "2012 bills", that would tax Carried Interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Each of the May 2010 House bill and the 2012 bills also provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. In its published revenue proposal for 2013, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. The Obama administration proposed similar changes in its published revenue proposals for 2010, 2011 and 2012.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried

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interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

On February 22, 2012, the Obama administration announced its "framework" of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework, if enacted, could adversely affect us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our Carried Interest in respect of such companies. The framework would also reduce the top marginal tax rate on corporations from 35% to 28%. Such a change could increase the effective cost of financing such investments, which could again reduce the value of our Carried Interest. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President's support for treatment of Carried Interest as ordinary income, as provided in the President's revenue proposal for 2013 described above. Because the framework did not include specifics, its effect on us is unclear.

### *Economic Income*

Blackstone uses Economic Income ("EI") as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges



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arise from Blackstone's initial public offering ("IPO") and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income ("ENI") now represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. (See Note 20. "Segment Reporting" in the "Notes to Consolidated Financial Statements" in Part II. Item 8. Financial Statements and Supplementary Data.)

### *Distributable Earnings*

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings, which is a non-GAAP measure, is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See "—Liquidity and Capital Resources—Liquidity and Capital Resources" below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Taxes and Payables Under the Tax Receivable Agreement.

### *Fee Related Earnings*

Blackstone uses Fee Related Earnings ("FRE"), which is derived from our segment reported results, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone's investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone's Treasury cash management strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone's Treasury cash management strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See "—Liquidity and Capital Resources—Liquidity and Capital Resources" below for our discussion of Fee Related Earnings.

### *Operating Metrics*

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds, REITs and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those

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funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,

- (b) the net asset value of our funds of hedge funds, hedge funds, and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of capital raised for our CLOs and the amount of debt and equity outstanding for our CDOs, and
- (e) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

*Fee-Earning Assets Under Management* . Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and / or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and carry funds including certain real estate debt investment funds in our Real Estate segment, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs,
- (g) the aggregate par amount of collateral assets, including cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments or the remaining amount of invested capital at cost depending on whether the investment period has or has not expired. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

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*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation.

We manage our business using traditional financial measures and our key operating metrics since we believe that these metrics measure the productivity of our investment activities.

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### Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for each of the years in the three year period ended December 31, 2012. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “—Segment Analysis” below.

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2012, 2011, and 2010:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$2,030,693	\$1,811,750	\$1,584,748	\$ 218,943	12%	\$ 227,002	14%
Performance Fees							
Realized							
Carried Interest	327,422	138,907	244,963	188,515	136%	(106,056)	-43%
Incentive Fees	301,801	90,099	121,758	211,702	N/M	(31,659)	-26%
Unrealized							
Carried Interest	994,190	971,518	457,002	22,672	2%	514,516	113%
Incentive Fees	(30,361)	(17,864)	114,111	(12,497)	-70%	(131,975)	N/M
Total Performance Fees	<u>1,593,052</u>	<u>1,182,660</u>	<u>937,834</u>	<u>410,392</u>	<u>35%</u>	<u>244,826</u>	<u>26%</u>
Investment Income							
Realized	93,963	87,542	29,157	6,421	7%	58,385	N/M
Unrealized	256,231	125,781	532,004	130,450	104%	(406,223)	-76%
Total Investment Income	<u>350,194</u>	<u>213,323</u>	<u>561,161</u>	<u>136,871</u>	<u>64%</u>	<u>(347,838)</u>	<u>-62%</u>
Interest and Dividend Revenue	40,354	37,427	36,218	2,927	8%	1,209	3%
Other	5,148	7,416	(619)	(2,268)	-31%	8,035	N/M
<b>Total Revenues</b>	<u>4,019,441</u>	<u>3,252,576</u>	<u>3,119,342</u>	<u>766,865</u>	<u>24%</u>	<u>133,234</u>	<u>4%</u>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	2,091,698	2,421,712	3,253,226	(330,014)	-14%	(831,514)	-26%
Performance Fee Compensation							
Realized							
Carried Interest	96,433	43,615	70,716	52,818	121%	(27,101)	-38%
Incentive Fees	140,042	55,912	57,600	84,130	150%	(1,688)	-3%
Unrealized							
Carried Interest	321,599	237,945	165,340	83,654	35%	72,605	44%
Incentive Fees	(44,528)	(20,759)	63,307	(23,769)	-114%	(84,066)	N/M
Total Compensation and Benefits	<u>2,605,244</u>	<u>2,738,425</u>	<u>3,610,189</u>	<u>(133,181)</u>	<u>-5%</u>	<u>(871,764)</u>	<u>-24%</u>
General, Administrative and Other	548,738	566,313	466,358	(17,575)	-3%	99,955	21%
Interest Expense	72,870	57,824	41,229	15,046	26%	16,595	40%
Fund Expenses	33,829	25,507	26,214	8,322	33%	(707)	-3%
<b>Total Expenses</b>	<u>3,260,681</u>	<u>3,388,069</u>	<u>4,143,990</u>	<u>(127,388)</u>	<u>-4%</u>	<u>(755,921)</u>	<u>-18%</u>
<b>Other Income</b>							
Reversal of Tax Receivable Agreement Liability	—	197,816	—	(197,816)	-100%	197,816	N/M
Net Gains from Fund Investment Activities	256,145	14,935	501,994	241,210	N/M	(487,059)	-97%
<b>Total Other Income</b>	<u>256,145</u>	<u>212,751</u>	<u>501,994</u>	<u>43,394</u>	<u>20%</u>	<u>(289,243)</u>	<u>-58%</u>
<b>Income (Loss) Before Provision for Taxes</b>	<u>1,014,905</u>	<u>77,258</u>	<u>(522,654)</u>	<u>937,647</u>	<u>N/M</u>	<u>599,912</u>	<u>N/M</u>
<b>Provision for Taxes</b>	<u>185,023</u>	<u>345,711</u>	<u>84,669</u>	<u>(160,688)</u>	<u>-46%</u>	<u>261,042</u>	<u>N/M</u>
<b>Net Income (Loss)</b>	<u>829,882</u>	<u>(268,453)</u>	<u>(607,323)</u>	<u>1,098,335</u>	<u>N/M</u>	<u>338,870</u>	<u>56%</u>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>							
Consolidated Entities	103,598	(24,869)	87,651	128,467	N/M	(112,520)	N/M
<b>Net Income Attributable to Non- Controlling Interests in Consolidated Entities</b>	<u>99,959</u>	<u>7,953</u>	<u>343,498</u>	<u>92,006</u>	<u>N/M</u>	<u>(335,545)</u>	<u>-98%</u>
<b>Net Income (Loss) Attributable to Non- Controlling Interests in Blackstone Holdings</b>							
Holdings	407,277	(83,234)	(668,444)	490,961	N/M	585,210	88%
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>	<u>\$ (370,028)</u>	<u>\$ 386,901</u>	<u>N/M</u>	<u>\$ 201,725</u>	<u>55%</u>

N/M Not meaningful.

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### *Revenues*

Total Revenues were \$4.0 billion for the year ended December 31, 2012, an increase of \$766.9 million compared to \$3.3 billion for the year ended December 31, 2011. The increase in revenues was primarily driven by increases of \$410.4 million in Performance Fees, \$218.9 million in Management and Advisory Fees and \$136.9 million in Investment Income. The increase in Performance Fees was due (a) to increases in the net returns of the performance fee generating funds in the Private Equity segment that were greater than the prior year, (b) a 14.4% increase in the carrying value of assets for Blackstone's contributed Real Estate funds primarily due to the continued improvement of operating fundamentals, particularly in our hospitality, office and retail holdings, (c) an increase in Fee-Earning Assets Under Management in the Hedge Funds Solutions segment related to funds of funds above their respective high-water marks and/or hurdle during the year ended December 31, 2012, and (d) a higher rate of appreciation in our Credit segment in the year ended December 31, 2012 compared to the year ended December 31, 2011, with net returns of 13.4% for the hedge funds, 26.2% for the mezzanine funds and 15.7% for the rescue lending funds for the year ended December 31, 2012. The increase in Management and Advisory Fees was primarily attributable to an increase in Fee-Earning Assets Under Management of 23% during the current year across the segments. The increase in Investment Income is primarily due to the increases in unrealized appreciation due to the increase in fair value of investments.

Total Revenues were \$3.3 billion for the year ended December 31, 2011, an increase of \$133.2 million compared to \$3.1 billion for the year ended December 31, 2010. The increase in revenues was primarily driven by an increase of \$227.0 million in Management and Advisory Fees and an increase in Performance Fees of \$244.8 million, partially offset by a decrease of \$347.8 million in Investment Income (Loss). The increase in Management and Advisory Fees was primarily attributable to (a) increases in management fees in our Private Equity segment, driven by fees generated from BCP VI and BEP funds, which commenced their investment periods during the first and third quarters of 2011, respectively, (b) increases in transaction fees in our Real Estate segment, driven by the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI's acquisition of the U.S. assets of Centro in the second quarter of 2011, and management fees earned from the management of an acquired Asian real estate platform, and (c) increases in management fees in our Credit and Hedge Fund Solutions segments due to higher Fee-Earning Assets Under Management. The increase in Performance Fees was due to improved operating performance and projected cash flows resulting in the appreciation in the fair value of the investments across our Real Estate carry funds and the impact of the "catch-up" provisions of the Real Estate funds' profit allocations. The "catch-up" provisions of the Real Estate funds' profit allocations specify that once a fund's preferred return hurdle has been reached, Blackstone is entitled to a disproportionately greater share (80% of the profits) until it effectively reaches its full share of performance fees (20% of the total profits).

### *Expenses*

Expenses were \$3.3 billion for the year ended December 31, 2012, a decrease of \$127.4 million, or 4%, compared to \$3.4 billion for the year ended December 31, 2011. The decrease was primarily attributable to a decrease of \$133.2 million in Compensation and Benefits. Compensation decreased \$330.0 million from the prior year period to \$2.1 billion as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2011 while Performance Fee Compensation increased \$196.8 million due to the increases in Performance Fees revenue. General, Administrative and Other expenses were \$548.7 million for the current year period, a decrease of \$17.6 million driven primarily by a decrease in amortization expense partially offset by increases in business development and professional expenses related to new investment products offered across the segments. Interest Expense was \$72.9 million for the current year, an increase of \$15.0 million from the same period of 2011 primarily due to Blackstone's issuance of senior notes in 2012.

Expenses were \$3.4 billion for the year ended December 31, 2011, a decrease of \$755.9 million, or 18%, compared to \$4.1 billion for the year ended December 31, 2010. The decrease was primarily attributable to a

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decrease of \$871.8 million in Compensation and Benefits. Compensation decreased \$831.5 million from the prior year period to \$2.4 billion as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2010. General, Administrative and Other expenses were \$566.3 million for the year ended December 31, 2011, an increase of \$100.0 million driven by the levels of business activity, revenue growth and headcount. Interest Expense was \$57.8 million for the year ended December 31, 2011, an increase of \$16.6 million from the same period of 2010 due to Blackstone's issuance of senior notes in 2010.

### *Other Income*

Other Income—Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income is eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Consolidated Statements of Operations.

Other Income—Net Gains from Fund Investment Activities was \$256.1 million for the year ended December 31, 2012, an increase of \$241.2 million compared to \$14.9 million for the year ended December 31, 2011. The increase of \$241.2 million was substantially due to increases in the income related to our investments in our consolidated CLO vehicles.

Also included in Other Income in 2011 was \$197.8 million of Other Income attributable to the reversal of the tax receivable agreement liability. The liability reduction resulted from certain corporate subsidiaries adopting New York State and New York City tax laws for sourcing of revenue for apportionment purposes, which reduced the effective tax rate for such corporate subsidiaries. This, in turn, reduced the expected future tax savings that would result in payments due to certain non-controlling interest holders under the tax receivable agreements.

Other Income—Net Gains from Fund Investment Activities was \$14.9 million for the year ended December 31, 2011, a decrease of \$487.1 million compared to \$502.0 million for the year ended December 31, 2010. The decrease was principally driven by the Credit, Hedge Funds Solutions and Real Estate segments with decreases of \$269.9 million, \$135.2 million and \$74.1 million, respectively. Higher valuations on the liabilities of the consolidated CLO vehicles, which were in excess of the valuations of their investments, resulted in the decrease in the Credit segment. The decrease in the Hedge Funds Solutions segment was the result of its consolidated funds experiencing lower returns in 2011 compared to 2010 in line with the returns of the BAAM Managed Funds, Core Funds Composite. The Real Estate decrease in 2011 was driven by a decrease in the appreciation of the investments of the consolidated funds compared to 2010.

### *Provision for Taxes*

Blackstone's Provision for Taxes for the years ended December 31, 2012, 2011 and 2010 was \$185.0 million, \$345.7 million and \$84.7 million, respectively. This resulted in an effective tax rate of 18.2%, 447.5% and -16.2%, respectively, based on our Income (Loss) Before Provision for Taxes of \$1.0 billion, \$77.3 million and \$(522.7) million, respectively.

Several factors contributed to the 429.3% decrease in the effective tax rate for the year ended December 31, 2012 compared to the year ended December 31, 2011. First, the decrease in the effective tax rate was largely due to the reversal of \$233.7 million of deferred tax assets as a result of the application of New York State and New York City tax laws during 2011, which resulted in a lower apportionment of income subject to tax in New York State and New York City. The lower apportionment of income to New York State and New York City also resulted in an income tax benefit of \$69.2 million for the exclusion of \$197.8 million book income realized from the reduction to the tax receivable agreement liability. The reversal of the deferred tax assets less the benefit of the income exclusion resulted in a significant increase to the 2011 effective tax rate that was not repeated for 2012 and a 203.0% decrease in the effective tax rate when comparing 2012 to 2011.

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Second, pre-tax book income includes pre-tax income of \$683.2 million for 2012 and pre-tax loss of \$169.7 million for 2011 that is passed through to common unit holders and non-controlling interest holders and is not subject to tax by the Partnership and its subsidiaries. The year over year change resulted in a decrease to the effective rate of 100.4% when comparing 2012 to 2011.

Third, in both 2012 and 2011, book equity-based compensation expense exceeded the tax deductible equity based-compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense did not change significantly in 2012 compared to 2011, the amount of pretax book income to which the amount of excess book expense was compared increased significantly in 2012 compared to 2011. This caused the effective tax rates to increase by 9.3% and 132.4% in 2012 and 2011, respectively, resulting in the decrease of 123.1% to the effective tax rate in 2012 compared to 2011.

Three factors contributed to the increase in the effective income tax rate of 447.5% for 2011 compared to -16.2% for 2010. First, \$233.7 million of deferred tax assets were reversed in 2011 due to a lower apportionment of income subject to New York State and New York City taxes. The lower apportionment of income to New York State and New York City also resulted in an income tax benefit of \$69.2 million for the exclusion of the \$197.8 million book income realized from the reduction to the tax receivable agreement liability. The 2011 net effective income tax rate resulting from the change in tax rates was 202.9%.

Second, pre-tax book income (loss) includes pre-tax losses of \$169.7 million and \$389.0 million for 2011 and 2010, respectively, that is passed through to common unitholders and non-controlling interests and is not taxable to the Partnership and its subsidiaries, which resulted in an effective tax rate of 76.9% in 2011, the year with pre-tax book income, and an effective tax rate of -26.1% in 2010, the year with a pre-tax book loss.

Third, the book equity-based compensation expense exceeds the tax deductible equity-based compensation expense due to the issuance of units that are not tax deductible since they represent a value for value exchange for tax purposes, which also increases the income tax provision by \$102.3 million and the effective tax rate by 132.4% in 2011, the year with a pre-tax book income, and increases the income tax provision by \$132.1 million but reduces the effective tax rate by 25.3% in 2010, the year with a pre-tax book loss.

All factors except for the reversal of the deferred tax asset are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 13. "Income Taxes" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

### *Non-Controlling Interests in Consolidated Entities*

The Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income—Net Gains from Fund Investment Activities from the Net Income (Loss) Attributable to The Blackstone Group L.P.

Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income (Loss) before Provision for Taxes, excluding the Net Gains from Fund Investment Activities, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

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For the year ended December 31, 2012, the net income before taxes allocated to Blackstone Holdings was 53.1% compared to 57.4% for the year ended December 31, 2011. The decrease of 4.3% was primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common unit grants.

For the year ended December 31, 2011, the net income before taxes allocated to Blackstone Holdings was 57.4% compared to 67.3% for the year ended December 31, 2010. The decrease of 9.9% was primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common unit grants. The Other Income—Reversal of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.





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	Year Ended December 31,										
	2012					2011					
	Private Equity	Real Estate	Hedge Fund			Total	Private Equity	Real Estate	Hedge Fund		Total
Solutions			Credit		Solutions				Credit		
	(Dollars in Thousands)										
Assets Under Management											
Balance, Beginning of Period	\$45,863,673	\$42,852,669	\$ 40,534,768	\$36,977,394	\$166,228,504	\$29,319,136	\$33,165,124	\$ 34,587,292	\$31,052,368	\$128,123,920	
Inflows, including Commitments (a)	4,233,717	12,566,140	5,338,891	24,489,441	46,628,189	18,620,779	8,297,282	11,303,991	11,292,641	49,514,693	
Outflows, including Distributions (b)	(76,495)	(262,300)	(3,167,852)	(2,429,344)	(5,935,991)	(76,632)	(432,938)	(3,622,452)	(1,488,803)	(5,620,825)	
Realizations (c)	(3,452,647)	(3,926,671)	—	(5,179,250)	(12,558,568)	(4,195,682)	(2,546,701)	—	(4,184,206)	(10,926,589)	
Net Inflows Market	704,575	8,377,169	2,171,039	16,880,847	28,133,630	14,348,465	5,317,643	7,681,539	5,619,632	32,967,279	
Appreciated (Depreciated) (d)	4,434,726	5,465,807	3,386,697	2,570,596	15,857,826	2,196,072	4,369,902	(1,734,063)	305,394	5,137,305	
Balance, End of Period (e)	\$51,002,974	\$56,695,645	\$ 46,092,504	\$56,428,837	\$210,219,960	\$45,863,673	\$42,852,669	\$ 40,534,768	\$36,977,394	\$166,228,504	
Increase	\$ 5,139,301	\$13,842,976	\$ 5,557,736	\$19,451,443	\$ 43,991,456	\$16,544,537	\$ 9,687,545	\$ 5,947,476	\$ 5,925,026	\$ 38,104,584	
Increase	11%	32%	14%	53%	26%	56%	29%	17%	19%	30%	

	Year Ended December 31,				
	2010				
	Private Equity	Real Estate	Hedge Fund		Total
Solutions			Credit		
	(Dollars in Thousands)				
Assets Under Management					
Balance, Beginning of Period	\$24,758,992	\$20,391,334	\$ 28,799,326	\$24,233,476	\$ 98,183,128
Inflows, including Commitments (a)	755,142	4,790,223	6,066,478	9,265,607	20,877,450
Outflows, including Distributions (b)	(135,190)	(163,648)	(3,287,712)	(1,216,772)	(4,803,322)
Realizations (c)	(1,985,633)	(736,044)	—	(2,451,003)	(5,172,680)
Net Inflows (Outflows) Market	(1,365,681)	3,890,531	2,778,766	5,597,832	10,901,448
Appreciated (d)	5,925,825	8,883,259	3,009,200	1,221,060	19,039,344
Balance, End of Period (e)	\$29,319,136	\$33,165,124	\$ 34,587,292	\$31,052,368	\$128,123,920
Increase	\$ 4,560,144	\$12,773,790	\$ 5,787,966	\$ 6,818,892	\$ 29,940,792
Increase	18%	63%	20%	28%	30%

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- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets and capital returned to investors from CLOs.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Assets Under Management as of December 31, 2012 included \$378.9 million and \$581.0 million, respectively, from a joint venture in which we are the minority interest holder.

### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$167.9 billion at December 31, 2012, an increase of \$31.1 billion, or 23%, compared to \$136.8 billion at December 31, 2011. Inflows of \$42.7 billion were due to (a) inflows of \$2.6 billion in our Private Equity segment primarily due to the commencement of the investment period for Tactical Opportunities, additional capital raised for our energy focused fund, Blackstone Energy Partners (“BEP”), and investments made from funds that earn fees on invested capital, (b) inflows of \$14.6 billion in our Real Estate segment primarily driven by capital committed to BREP VII, invested capital in our BREDS funds and \$2.2 billion from the Capital Trust transaction in December 2012, (c) inflows of \$5.5 billion in our Hedge Fund Solutions segment mainly related to growth in its commingled and customized investment products, and (d) inflows of \$20.1 billion in our Credit segment resulting from the launch of our third closed-end fund, the pricing of three new CLOs, deploying limited partner capital in our carry funds, inflows across our long only platform and the acquisition of Harbourmaster on January 5, 2012. Outflows of \$6.2 billion were primarily attributable to (a) outflows of \$1.7 billion in our Credit segment primarily from our long only platform and hedge funds, (b) outflows of \$3.0 billion in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners and (c) outflows of \$1.5 billion in our Real Estate segment due primarily to the ending of BREP IV’s partnership term in December 2012 which ceased earning management fees on invested capital. Realizations of \$10.2 billion were driven by (a) realizations of \$2.8 billion in our Private Equity segment that were primarily a result of the dispositions of investments in funds which earn fees based on remaining invested capital, (b) realizations of \$2.5 billion in our Real Estate segment attributable to the sale of various investments across the real estate segment’s funds which earn fees on invested capital and (c) realizations of \$4.8 billion in our Credit segment primarily due to capital returned to CLO investors from CLOs that are post their re-investment periods and realizations in our carry funds. Market appreciation of \$4.8 billion was principally due to increases in the global markets during 2012.

BAAM had net inflows of \$804.4 million from January 1 through February 1, 2013.

Fee-Earning Assets Under Management were \$136.8 billion at December 31, 2011, an increase of \$27.3 billion, or 25%, compared to \$109.5 billion at December 31, 2010. Inflows of \$43.7 billion were primarily related to (a) inflows of \$16.3 billion in our Private Equity segment primarily due to the commencement of the investment periods for the BCP VI and BEP funds, (b) inflows of \$9.7 billion in our Hedge Fund Solutions segment primarily due to growth in its commingled and customized investment products and long only solutions business, (c) inflows of \$9.9 billion in our Credit segment primarily due to capital raised across its long only platform, including the acquisition of \$2.2 billion of CLO vehicles in the second quarter of 2011, and capital deployed from its drawdown funds, and (d) inflows of \$7.8 billion in our Real Estate segment primarily due to the deployment of fee-earning co-investment capital related to the acquisition of the U.S. assets of Brixmor and the commencement of BREP VII. Outflows of \$9.1 billion were primarily attributable to (a) outflows of

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\$1.3 billion in our Credit segment primarily from our hedge funds and long only platform, (b) outflows of \$3.3 billion in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners, (c) outflows of \$2.5 billion in our Private Equity segment due to the end of BCP V's investment period during the first quarter of 2011 and (d) outflows of \$2.0 billion in our Real Estate segment primarily due to the end of BREP VI's investment period for which management fees are earned on invested capital. Realizations of \$5.6 billion were primarily attributable to (a) realizations of \$1.4 billion in our Real Estate segment resulting from sales of various investments across the Real Estate segment's funds and the acquired Asian real estate platform, (b) realizations of \$3.5 billion in our Credit segment due to capital returned to CLO investors from CLOs that were post their re-investment periods and realizations in the carry funds, and (c) realizations of \$747.9 million in our Private Equity segment due to dispositions in funds which earn fees based on remaining invested capital. Market depreciation of \$1.8 billion was principally due to declines in global markets.

### Assets Under Management

Assets Under Management were \$210.2 billion at December 31, 2012, an increase of \$44.0 billion, or 26%, compared to \$166.2 billion at December 31, 2011. Inflows of \$46.6 billion were primarily related to (a) inflows of \$4.2 billion in our Private Equity segment due to the closing on Tactical Opportunities and additional closings on our BEP fund, (b) inflows of \$12.6 billion in our Real Estate segment driven by capital committed to BREP VII and \$2.3 billion from the Capital Trust transaction in December 2012, (c) inflows of \$5.3 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products, and (d) inflows of \$24.5 billion in our Credit segment resulting from inflows in our hedge funds, the final closing of our most recent mezzanine fund, the first closing of our most recent rescue lending fund, inflows across our long only platform and the acquisition of Harbourmaster on January 5, 2012. Market appreciation of \$15.9 billion, outflows of \$5.9 billion and realizations of \$12.6 billion across the segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

Assets Under Management were \$166.2 billion at December 31, 2011, an increase of \$38.1 billion, or 30%, compared to \$128.1 billion at December 31, 2010. Inflows of \$49.5 billion were primarily related to (a) inflows of \$18.6 billion in our Private Equity segment driven by the commencement of BCP VI's investment period, (b) inflows of \$11.3 billion in our Hedge Fund Solutions segment due to growth in the hedge fund manager seeding platform, long only commodities and equity replacement business and its commingled and customized investment products, (c) inflows of \$11.3 billion in our Credit segment principally due to the acquisition of \$2.3 billion of CLO vehicles and capital raised across its long only platform, and (d) inflows of \$8.3 billion in our Real Estate segment primarily due to the deployment of co-investment capital and commencement of BREP VII. Outflows of \$5.6 billion and realizations of \$10.9 billion were for the same reasons noted in Fee-Earning Assets Under Management above. Net market appreciation of \$5.1 billion was primarily due to appreciation in the Real Estate and Private Equity segments of \$4.4 billion and \$2.2 billion, respectively, partially offset by market depreciation in the Hedge Fund Solutions segment of \$1.7 billion. Real Estate and Private Equity benefited from improvements in the carrying values of their investments while Hedge Fund Solutions was affected by equity market declines.

### Limited Partner Capital Invested

The following table presents the limited partner capital invested during the respective periods:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
Limited Partner Capital Invested							
Private Equity					-		
Real Estate	\$ 3,223,535	\$ 3,848,954	\$1,653,493	\$ (625,419)	16%	\$2,195,461	133%
Hedge Fund Solutions	8,218,175	6,141,416	4,072,527	2,076,759	34%	2,068,889	51%
Credit	200,841	889,259	223,981	(688,418)	77%	665,278	N/M
	<u>2,256,420</u>	<u>2,650,137</u>	<u>1,407,993</u>	<u>(393,717)</u>	<u>15%</u>	<u>1,242,144</u>	<u>88%</u>
Total	<u>\$13,898,971</u>	<u>\$13,529,766</u>	<u>\$7,357,994</u>	<u>\$ 369,205</u>	<u>3%</u>	<u>\$6,171,772</u>	<u>84%</u>

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Limited Partner Capital Invested was \$13.9 billion for the year ended December 31, 2012, an increase of \$369.2 million, or 3%, from \$13.5 billion for the year ended December 31, 2011. The increase of \$369.2 million is primarily attributable to an increase in our Real Estate segment of \$2.1 billion due to the continued favorable investment environment, which created opportunities in a variety of markets and sectors, including single family homes, an economy hotel chain and industrial assets, and partially offset by decreases of \$625.4 million in our Private Equity segment due to several new commitments with closings expected to occur after year end, \$688.4 million in our Hedge Fund Solutions segment due to relative investment opportunities for our funds that employ a capital commitment structure and \$393.7 million in our Credit segment.

### Net Accrued Performance Fees

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of December 31, 2012 and 2011. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. “Commitments and Contingencies—Contingencies—Contingent Obligations (Clawback)” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data” of this filing.

	December 31,	
	2012	2011
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 582	\$ 550
BCP VI Carried Interest	22	—
BEP Carried Interest	38	—
Tactical Opportunities Carried Interest	2	—
Total Private Equity (a)	<u>644</u>	<u>550</u>
<b>Real Estate</b>		
BREP V Carried Interest	448	254
BREP VI Carried Interest	610	407
BREP VII Carried Interest	82	—
BREP Int’l I Carried Interest	2	9
BREP EU III Carried Interest	74	37
BREDS Carried Interest	19	12
BREDS Incentive Fees	7	—
Asia Platform Incentive Fees	23	23
Total Real Estate (a)	<u>1,265</u>	<u>742</u>
<b>Hedge Fund Solutions</b>		
Incentive Fees	67	7
Total Hedge Fund Solutions	<u>67</u>	<u>7</u>
<b>Credit</b>		
Carried Interest	144	76
Incentive Fees	118	93
Total Credit	<u>262</u>	<u>169</u>
<b>Total Blackstone</b>		
Carried Interest	2,023	1,345
Incentive Fees	215	123
Net Accrued Performance Fees	<u>\$2,238</u>	<u>\$1,468</u>

(a) Private Equity and Real Estate include Co-Investments.

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### *Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant drawdown funds from inception through December 31, 2012:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)		
			MOIC			MOIC		MOIC		Realized	Total	
			Value	(b)	% Public	Value	(b)	Value	(b)			
(Dollars in Thousands, Except Where Noted)												
<b>Private Equity</b>												
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$ —	\$ —	N/A	—	\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%	
BCP II (Oct 1993 / Aug 1997)	1,361,100	—	—	N/A	—	3,256,819	2.5x	3,256,819	2.5x	32%	32%	
BCP III (Aug 1997 / Nov 2002)	3,973,378	167,776	—	N/A	100%	9,181,266	2.3x	9,181,266	2.3x	14%	14%	
BCOM (Jun 2000 / Jun 2006)	2,137,330	202,433	347,362	0.9x	52%	2,463,892	1.4x	2,811,254	1.3x	9%	6%	
BCP IV (Nov 2002 / Dec 2005)	6,773,138	250,890	5,946,433	2.1x	60%	14,246,559	3.0x	20,192,992	2.7x	57%	37%	
BCP V (Dec 2005 / Jan 2011)	21,020,395	1,370,953	19,354,620	1.2x	20%	3,910,358	1.1x	23,264,978	1.2x	1%	2%	
BCP VI (Jan 2011 / Jan 2016)	15,220,745	11,418,584	3,502,548	1.2x	28%	35,962	1.3x	3,538,510	1.2x	21%	11%	
BEP (Aug 2011 / Aug 2017)	2,415,848	1,433,833	864,486	1.7x	43%	32,546	1.2x	897,032	1.7x	30%	84%	
Total Core Private Equity	53,761,015	14,844,469	30,015,449	1.3x	30%	34,869,140	2.2x	64,884,589	1.7x	21%	15%	
Tactical Opportunities (d)	1,683,786	1,402,545	292,388	1.1x	—	7,515	1.3x	299,903	1.1x	N/M	22%	
Other Funds and Co-Invest (d)	975,857	264,443	241,057	N/A	—	—	N/A	241,057	N/A	N/A	N/A	
<b>Total Private Equity</b>	<b>\$56,420,658</b>	<b>\$16,511,457</b>	<b>\$30,548,894</b>	<b>1.3x</b>	<b>30%</b>	<b>\$34,876,655</b>	<b>2.2x</b>	<b>\$65,425,549</b>	<b>1.6x</b>	<b>21%</b>	<b>14%</b>	

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			MOIC			MOIC		MOIC		Realized	Total
			Value	(b)	% Public	Value	(b)	Value	(b)		
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$ —	\$ —	N/A	—	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708	—	—	N/A	—	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339	—	—	N/A	—	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708	—	2,161	0.1x	—	3,325,133	2.4x	3,327,294	2.4x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694	—	1,304,704	0.8x	5%	2,865,821	2.4x	4,170,525	1.5x	80%	13%
BREP V (Dec 2005 / Feb 2007)	5,538,579	243,946	7,035,133	1.6x	—	2,352,733	1.6x	9,387,866	1.6x	41%	9%
BREP VI (Feb 2007 / Aug 2011)	11,057,598	778,946	14,875,722	1.5x	6%	1,657,237	2.0x	16,532,959	1.5x	30%	9%
BREP VII (Aug 2011 / Feb 2017)	13,380,006	8,309,404	6,029,048	1.2x	—	285,170	1.5x	6,314,218	1.2x	93%	31%
Total Global Real Estate Funds	35,417,346	9,332,296	29,246,768	1.4x	3%	14,690,605	2.1x	43,937,373	1.6x	28%	16%
BREP Co-Investment (e)	3,551,965	—	4,666,535	1.5x	1%	499,348	1.4x	5,165,883	1.5x	11%	11%
<b>Euro</b>											
BREP Int'l (Jan 2001 / Sep 2005)	€ 824,172	€ —	€ 109,596	1.2x	—	€ 1,230,290	2.2x	€ 1,339,886	2.0x	26%	23%
BREP Int'l II (Sep 2005 / Jun 2008)	1,627,954	81,163	1,130,137	0.9x	—	191,501	1.2x	1,321,638	1.0x	3%	-3%
BREP Europe III (Jun 2008 / Dec 2013)	3,199,792	1,232,039	2,689,712	1.3x	—	15,712	2.8x	2,705,424	1.4x	49%	18%
Total Euro Funds	€ 5,651,918	€ 1,313,202	€ 3,929,445	1.2x	—	€ 1,437,503	2.0x	€ 5,366,948	1.3x	24%	8%
Total Real Estate	\$46,092,185	\$11,003,912	\$39,105,145	1.4x	3%	\$16,961,798	2.1x	\$56,066,943	1.5x	27%	14%
Debt Strategies Drawdown (f)	\$ 2,824,982	\$ 792,570	\$ 2,373,265	1.2x	—	\$ 1,332,667	1.2x	\$ 3,705,932	1.2x	16%	13%
<b>Credit</b>											
Mezzanine	\$ 6,120,000	\$ 3,005,452	\$ 4,342,028	1.4x	—	\$ 1,667,885	1.6x	\$ 6,009,913	1.4x	N/A	19%
Rescue Lending	3,253,143	689,731	3,197,712	1.2x	—	1,172,529	1.2x	4,370,241	1.2x	N/A	14%
Total Credit	\$ 9,373,143	\$ 3,695,183	\$ 7,539,740	1.3x	—	\$ 2,840,414	1.4x	\$10,380,154	1.3x	—	—

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.



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N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments. Additionally, the Real Estate segment has \$1.1 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
- (b) Multiple of Invested Capital (“MOIC”) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return (“IRR”) represents the annualized inception to December 31, 2012 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for Tactical Opportunities and Other Funds and Co-Invest are not applicable or not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment’s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) Excludes Capital Trust drawdown funds.

### Segment Analysis

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to “our” sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

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### Private Equity

The following table presents our results of operations for our Private Equity segment:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$348,594	\$331,997	\$263,307	\$ 16,597	5%	\$ 68,690	26%
Transaction and Other Fees, Net	100,080	133,004	72,243	(32,924)	-25%	60,761	84%
Management Fee Offsets	(5,926)	(27,073)	(188)	21,147	78%	(26,885)	N/M
Total Management Fees, Net	<u>442,748</u>	<u>437,928</u>	<u>335,362</u>	<u>4,820</u>	<u>1%</u>	<u>102,566</u>	<u>31%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	109,797	37,393	156,869	72,404	194%	(119,476)	-76%
<b>Unrealized</b>							
Carried Interest	148,381	33,490	151,494	114,891	N/M	(118,004)	-78%
Total Performance Fees	<u>258,178</u>	<u>70,883</u>	<u>308,363</u>	<u>187,295</u>	<u>N/M</u>	<u>(237,480)</u>	<u>-77%</u>
<b>Investment Income</b>							
<b>Realized</b>							
Carried Interest	25,823	44,988	15,332	(19,165)	-43%	29,656	193%
<b>Unrealized</b>							
Carried Interest	85,337	9,476	153,288	75,861	N/M	(143,812)	-94%
Total Investment Income	111,160	54,464	168,620	56,696	104%	(114,156)	-68%
Interest and Dividend Revenue	13,556	13,749	14,044	(193)	-1%	(295)	-2%
Other	2,417	1,810	2,021	607	34%	(211)	-10%
Total Revenues	<u>828,059</u>	<u>578,834</u>	<u>828,410</u>	<u>249,225</u>	<u>43%</u>	<u>(249,576)</u>	<u>-30%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	222,709	217,556	179,345	5,153	2%	38,211	21%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	3,679	1,465	32,627	2,214	151%	(31,162)	-96%
<b>Unrealized</b>							
Carried Interest	58,555	(2,229)	21,320	60,784	N/M	(23,549)	N/M
Total Compensation and Benefits	284,943	216,792	233,292	68,151	31%	(16,500)	-7%
Other Operating Expenses	130,845	120,918	109,589	9,927	8%	11,329	10%
Total Expenses	<u>415,788</u>	<u>337,710</u>	<u>342,881</u>	<u>78,078</u>	<u>23%</u>	<u>(5,171)</u>	<u>-2%</u>
Economic Income	<u>\$412,271</u>	<u>\$241,124</u>	<u>\$485,529</u>	<u>\$171,147</u>	<u>71%</u>	<u>\$(244,405)</u>	<u>-50%</u>

N/M Not meaningful.

### Revenues

Revenues were \$828.1 million for the year ended December 31, 2012, an increase of \$249.2 million compared to \$578.8 million for the year ended December 31, 2011. The increase in revenues was primarily attributed to increases in Performance Fees, Investment Income and Management Fees of \$187.3 million, \$56.7 million and \$4.8 million, respectively.

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Performance Fees, which are determined on a fund by fund basis, were \$258.2 million for the year ended December 31, 2012, an increase of \$187.3 million, compared to \$70.9 million for the year ended December 31, 2011, principally due to our performance fee generating funds achieving net returns for the full year that were greater than the returns generated in the prior year. These larger returns were mostly generated from investments in the energy sector as well as from our publicly traded investments, specifically Cheniere, TRW and Team Health.

Investment Income was \$111.2 million, an increase of \$56.7 million, compared to \$54.5 million for the year ended ended December 31, 2011, driven by our investments in the energy, hospitality/leisure and retail/consumer industries as well as our public holdings.

Total Management Fees were \$442.7 million for the year ended December 31, 2012, an increase of \$4.8 million compared to \$437.9 million for the year ended December 31, 2011, driven by increased Base Management Fees and a reduction in Management Fee Offsets, and a decrease in Transaction and Other Fees. Base Management Fees were \$348.6 million for the year ended December 31, 2012, an increase of \$16.6 million compared to \$332.0 million for the year ended December 31, 2011, principally as a result of additional capital raised for our BEP fund as well as the commencement of the investment period for Tactical Opportunities. Transaction and Other Fees were \$100.1 million for the year ended December 31, 2012, a decrease of \$32.9 million compared to \$133.0 million for the year ended December 31, 2011, principally as a result of one time fees earned in the prior year from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Revenues were \$578.8 million for the year ended December 31, 2011, a decrease of \$249.6 million compared to \$828.4 million for the year ended December 31, 2010. The decrease in revenues was attributed to a decrease in Performance Fees and Investment Income of \$237.5 million and \$114.2 million, respectively, partially offset by an increase in Total Management Fees of \$102.6 million.

Performance Fees, which are determined on a fund by fund basis, were \$70.9 million for the year ended December 31, 2011, a decrease of \$237.5 million, compared to \$308.4 million for the year ended December 31, 2010, principally due to lower Performance Fees in BCP IV which had net returns of 8% in 2011 versus 30% during the 2010 year. The returns in 2011 were driven by investments in the energy sector and our publicly traded portfolio, particularly the investments which had initial public offerings in 2011, including Nielsen Holdings N.V., Kosmos Energy Ltd., BankUnited, Inc., and Vanguard Health Systems, Inc. Investment Income was \$54.5 million, a decrease of \$114.2 million, compared to \$168.6 million for the year ended December 31, 2010, principally driven by BCP IV and BCP V which, despite having positive current period performance, had lower fund returns than for the prior year; the 2010 results were driven by investments across all sectors from the improved economic environment during that period.

Total Management Fees were \$437.9 million for the year ended December 31, 2011, an increase of \$102.6 million compared to \$335.4 million for the year ended December 31, 2010, driven by increased Base Management Fees and Transaction and Other Fees, partially offset by an increase in Management Fee Offsets. Base Management Fees were \$332.0 million for the year ended December 31, 2011, an increase of \$68.7 million compared to \$263.3 million for the year ended December 31, 2010, principally as a result of an increase in Fee-Earning Assets Under Management due to the commencement of the BCP VI and BEP funds. Transaction and Other Fees were \$133.0 million for the year ended December 31, 2011, an increase of \$60.8 million compared to \$72.2 million for the year ended December 31, 2010, principally as a result of one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings as well as fees generated from the increase in new investment activity. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

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### Expenses

Expenses were \$415.8 million for the year ended December 31, 2012, an increase of \$78.1 million, compared to \$337.7 million for the year ended December 31, 2011. The \$78.1 million increase was primarily attributed to a \$63.0 million increase in Performance Fee Compensation, \$5.2 million increase in Compensation and \$9.9 million increase in Other Operating Expenses. The increase in Performance Fee Compensation is driven by the increase in Performance Fees revenue. Compensation increased as a portion of it is related to the segment's results, exclusive of Performance Fees and Investment Income, as well as compensation related to business growth. The increase in Other Operating Expenses of \$9.9 million was primarily due to increases in interest expense and other expenses allocated to the segment.

Expenses were \$337.7 million for the year ended December 31, 2011, a decrease of \$5.2 million, compared to \$342.9 million for the year ended December 31, 2010. The \$5.2 million decrease was primarily attributed to a \$54.7 million decrease in Performance Fee Compensation, mostly offset by a \$38.2 million increase in Compensation and a \$11.3 million increase in Other Operating Expenses. Performance Fee Compensation decreased as a result of the decreases in Performance Fees revenue. Compensation rose due to increased headcount and an improvement in performance measures to which a portion of compensation is linked. Other Operating Expenses increased \$11.3 million to \$120.9 million, principally due to interest expense allocated to the segment and occupancy costs.

### Fund Returns

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (a)	Year Ended December 31,						December 31, 2012 Inception to Date			
	2012		2011		2010		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	17%	16%	9%	8%	34%	30%	74%	57%	51%	37%
BCP V	12%	11%	5%	5%	29%	27%	4%	1%	4%	2%
BCP VI (b)	35%	25%	N/M	N/M	N/A	N/A	43%	21%	25%	11%
BEP (b)	99%	90%	N/M	N/M	N/A	N/A	36%	30%	90%	84%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- (b) 2011 returns for BCP VI and BEP are not meaningful as a material portion of the funds' capital had not been invested.

The Private Equity segment has three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of December 31, 2012, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be

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above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is currently below its Carried Interest threshold. BCOM is currently below its Carried Interest threshold but has generated inception-to-date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of December 31, 2012:

<u>Funds out of the Investment Period</u>	<u>Gain to Cross Carried Interest Threshold (a)</u>	
	<u>Amount</u>	<u>% Change in Total Enterprise Value (b)</u>
	<u>(Dollars in Millions)</u>	
BCP V (Dec 2005 / Jan 2011)	\$ 5,649	12%

(a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.

(b) Total Enterprise Value is the respective fund's pro rata ownership of the portfolio companies' Enterprise Value at the reporting date.

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### Real Estate

The following table presents our results of operations for our Real Estate segment:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$ 551,322	\$ 394,778	\$ 338,428	\$ 156,544	40%	\$ 56,350	17%
Transaction and Other Fees, Net	85,681	109,510	59,914	(23,829)	-22%	49,596	83%
Management Fee Offsets	(28,609)	(4,950)	(1,071)	(23,659)	N/M	(3,879)	N/M
Total Management Fees, Net	<u>608,394</u>	<u>499,338</u>	<u>397,271</u>	<u>109,056</u>	<u>22%</u>	<u>102,067</u>	<u>26%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	165,114	22,844	16,113	142,270	N/M	6,731	42%
Incentive Fees	25,656	9,629	24,175	16,027	166%	(14,546)	-60%
<b>Unrealized</b>							
Carried Interest	683,764	913,418	218,706	(229,654)	-25%	694,712	N/M
Incentive Fees	(119)	3,658	38,265	(3,777)	N/M	(34,607)	-90%
Total Performance Fees	<u>874,415</u>	<u>949,549</u>	<u>297,259</u>	<u>(75,134)</u>	<u>-8%</u>	<u>652,290</u>	<u>N/M</u>
<b>Investment Income</b>							
<b>Realized</b>							
Carried Interest	45,302	27,972	11,251	17,330	62%	16,721	149%
<b>Unrealized</b>							
Carried Interest	90,875	92,648	318,979	(1,773)	-2%	(226,331)	-71%
Total Investment Income	<u>136,177</u>	<u>120,620</u>	<u>330,230</u>	<u>15,557</u>	<u>13%</u>	<u>(209,610)</u>	<u>-63%</u>
Interest and Dividend Revenue	14,448	12,902	11,173	1,546	12%	1,729	15%
Other	894	(1,061)	(336)	1,955	N/M	(725)	N/M
Total Revenues	<u>1,634,328</u>	<u>1,581,348</u>	<u>1,035,597</u>	<u>52,980</u>	<u>3%</u>	<u>545,751</u>	<u>53%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	271,122	236,771	183,177	34,351	15%	53,594	29%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	62,418	10,103	4,545	52,315	N/M	5,558	122%
Incentive Fees	13,060	4,564	11,299	8,496	186%	(6,735)	-60%
<b>Unrealized</b>							
Carried Interest	165,482	221,140	103,406	(55,658)	-25%	117,734	114%
Incentive Fees	(583)	3,106	19,458	(3,689)	N/M	(16,352)	-84%
Total Compensation and Benefits	<u>511,499</u>	<u>475,684</u>	<u>321,885</u>	<u>35,815</u>	<u>8%</u>	<u>153,799</u>	<u>48%</u>
Other Operating Expenses	<u>123,714</u>	<u>103,859</u>	<u>74,189</u>	<u>19,855</u>	<u>19%</u>	<u>29,670</u>	<u>40%</u>
Total Expenses	<u>635,213</u>	<u>579,543</u>	<u>396,074</u>	<u>55,670</u>	<u>10%</u>	<u>183,469</u>	<u>46%</u>
Economic Income	<u>\$ 999,115</u>	<u>\$1,001,805</u>	<u>\$ 639,523</u>	<u>\$ (2,690)</u>	<u>-0%</u>	<u>\$ 362,282</u>	<u>57%</u>

N/M Not meaningful.

### Revenues

Revenues improved \$53.0 million to \$1.6 billion for the year ended December 31, 2012. The increase in revenues was primarily attributed to an increase of \$109.1 million in Total Management Fees and an increase of \$15.6 million in Investment Income, partially offset by a decrease of \$75.1 million in Performance Fees.

Total Management Fees were \$608.4 million for the year ended December 31, 2012, an increase of \$109.1 million compared to \$499.3 million for the year ended December 31, 2011. Base Management Fees were \$551.3 million for the year ended December 31, 2012, an increase of \$156.5 million compared to \$394.8 million

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for the year ended December 31, 2011, primarily related to fees generated from the final closing of additional commitments for BREP VII. Transaction and Other Fees were \$85.7 million for the year ended December 31, 2012, a decrease of \$23.8 million compared to \$109.5 million for the year ended December 31, 2011, which was primarily related to a decrease in the acquisition fee rate charge on completed transactions.

Investment Income was \$136.2 million for the year ended December 31, 2012, an increase of \$15.6 million compared to \$120.6 million for the year ended December 31, 2011. The increase was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Performance Fees, which are determined on a fund by fund basis, were \$874.4 million for the year ended December 31, 2012, a decrease of \$75.1 million compared to \$949.5 million for the year ended December 31, 2011. Performance Fees continued to benefit from the strong performance of our BREP carry funds. However, the year over year comparison was impacted by a decrease in the net appreciation of our BREP V and BREP VI carry funds' investments and the effect of the "catch-up" provision in the prior year. For the year ended December 31, 2012, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 14.4% driven by the continued improvement of operating fundamentals, particularly in our hospitality, office and retail holdings. Our BREDS and real estate hedge funds increased 13.0% and 18.1%, respectively.

Revenues were \$1.6 billion for the year ended December 31, 2011, an increase of \$545.8 million compared to \$1.0 billion for the year ended December 31, 2010. The increase in revenues was primarily attributed to an increase of \$652.3 million in Total Performance Fees and an increase of \$102.1 million in Total Management Fees, partially offset by a decrease of \$209.6 million in Total Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$949.5 million for the year ended December 31, 2011, an increase of \$652.3 million compared to \$297.3 million for the year ended December 31, 2010. Investment Income was \$120.6 million for the year ended December 31, 2011, a decrease of \$209.6 million compared to \$330.2 million for the year ended December 31, 2010. The net appreciation in fair value of the investments in our BREP V and BREP VI carry funds primarily contributed to the increase in Performance Fees for the year ended December 31, 2011. Performance Fees benefited from the strong performance of our carry funds with a portion of the increase due to the impact of the "catch-up" provisions of the Real Estate funds' profit allocations. The "catch-up" provisions of the Real Estate funds' profit allocations specify that once a fund's preferred return hurdle has been reached, Blackstone is entitled to a disproportionately greater share (80% of the profits) until it effectively reaches its full share of performance fees. The decrease in Investment Income was primarily driven by the year over year decrease in the appreciation of investments related to the BREP VI fund, in which Blackstone owns a greater share of such investments. The carrying fair value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 16.7% for the year ended December 31, 2011. The performance during the year ended December 31, 2011 was primarily driven by improved operating performance and projected cash flows across our Real Estate carry funds' investments, including fee-paying co-investments, which resulted in the appreciation of our holdings, principally within our office, hotel and retail portfolios. As of December 31, 2011, the unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of Blackstone's Real Estate funds, including fee-paying co-investments, represented 1.4 times investors' original investment. On realized/partially realized basis, this multiple was 2.1 times investors' original investments.

Total Management Fees were \$499.3 million for the year ended December 31, 2011, an increase of \$102.1 million compared to \$397.3 million for the year ended December 31, 2010. Base Management Fees were \$394.8 million for the year ended December 31, 2011, an increase of \$56.4 million compared to \$338.4 million for the year ended December 31, 2010, primarily due to fees earned from the management of the acquired Asian real estate platform and management fees earned from our co-investments. Transaction and Other Fees were \$109.5 million for the year ended December 31, 2011, an increase of \$49.6 million compared to \$59.9 million for the year ended December 31, 2010, reflecting the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI's acquisition of the U.S. assets of Brixmor.

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### Expenses

Expenses were \$635.2 million for the year ended December 31, 2012, an increase of \$55.7 million, compared to \$579.5 million for the year ended December 31, 2011. The increase was primarily attributed to a \$34.4 million increase in Compensation and a \$19.9 million increase in Other Operating Expenses. Compensation rose \$34.4 million to \$271.1 million primarily due to headcount increases and the improved results of the segment, exclusive of Performance Fees and Investment Income. Other Operating Expenses increased \$19.9 million to \$123.7 million for the year ended December 31, 2012, principally due to increases in interest expense and other expenses allocated to the segment.

Expenses were \$579.5 million for the year ended December 31, 2011, an increase of \$183.5 million, compared to \$396.1 million for the year ended December 31, 2010. The increase was primarily attributed to a \$100.2 million increase in Performance Fee Compensation, resulting from improved Performance Fees revenue and an increase in Compensation of \$53.6 million to \$236.8 million. Compensation rose primarily due to headcount increases related to the management of the acquired Asian real estate platform and the profitability of the segment, exclusive of Performance Fees and Investment Income. Other Operating Expenses increased \$29.7 million to \$103.9 million for the year ended December 31, 2011, principally due to placement fees related to our debt investment funds, interest expense allocated to the segment, and expenses related to the management of the acquired Asian real estate platform.

### Fund Returns

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Year Ended December 31,						December 31, 2012 Inception to Date			
	2012		2011		2010		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP International (b)	30%	21%	44%	33%	13%	8%	35%	26%	33%	23%
BREP IV	5%	2%	11%	7%	49%	30%	116%	80%	24%	13%
BREP V	17%	13%	21%	14%	70%	61%	64%	41%	13%	9%
BREP International II (b)	-2%	-4%	4%	2%	88%	84%	9%	3%	-1%	-3%
BREP VI	15%	11%	21%	13%	145%	137%	39%	30%	14%	9%
BREP Europe III (b)	19%	12%	42%	26%	239%	147%	60%	49%	41%	18%
BREP VII (c)	51%	32%	—	N/M	N/A	N/A	217%	93%	51%	31%
BREDS I	20%	15%	9%	7%	26%	21%	20%	16%	18%	13%
BSSF I	23%	18%	4%	2%	21%	15%	N/A	N/A	15%	11%
CMBS	19%	14%	1%	-1%	26%	20%	N/A	N/A	18%	12%
BREP Co-Investment (d)	15%	13%	27%	23%	214%	207%	20%	18%	13%	11%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based net internal rates of return.



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- (c) The BREP VII investment period commenced in August 2011.
- (d) Excludes fully realized co-investments prior to Blackstone's initial public offering.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of December 31, 2012:

<u>Fully Invested Funds</u>	<u>Gain to Cross Carried Interest Threshold (a)</u>		<u>Total Enterprise Value (b)</u>
	<u>Amount</u> <u>(Amounts in Millions)</u>	<u>% Change in</u>	
BREP Int'l II (Sep 2005 / Jun 2008)	€ 991		23%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has three funds in their investment period, which were above their respective Carried Interest thresholds as of December 31, 2012: BREP Europe III, BREP VII and BREDS I.

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### Hedge Fund Solutions

The following table presents our results of operations for our Hedge Fund Solutions segment:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
Management Fees, Net							
Base Management Fees	\$346,210	\$315,863	\$272,773	\$ 30,347	10%	\$ 43,090	16%
Transaction and Other Fees, Net	188	2,798	3,572	(2,610)	-93%	(774)	-22%
Management Fee Offsets	(1,414)	(980)	(330)	(434)	-44%	(650)	-197%
Total Management Fees, Net	<u>344,984</u>	<u>317,681</u>	<u>276,015</u>	<u>27,303</u>	<u>9%</u>	<u>41,666</u>	<u>15%</u>
Performance Fees							
Realized							
Incentive Fees	83,433	11,472	56,626	71,961	N/M	(45,154)	-80%
Unrealized							
Incentive Fees	9,042	774	2,982	8,268	N/M	(2,208)	-74%
Total Performance Fees	<u>92,475</u>	<u>12,246</u>	<u>59,608</u>	<u>80,229</u>	<u>N/M</u>	<u>(47,362)</u>	<u>-79%</u>
Investment Income (Loss)							
Realized	7,270	17,722	9,818	(10,452)	-59%	7,904	81%
Unrealized	8,517	(19,031)	19,361	27,548	N/M	(38,392)	N/M
Total Investment Income (Loss)	<u>15,787</u>	<u>(1,309)</u>	<u>29,179</u>	<u>17,096</u>	<u>N/M</u>	<u>(30,488)</u>	<u>N/M</u>
Interest and Dividend Revenue	2,139	2,025	1,869	114	6%	156	8%
Other	3,816	7,902	97	(4,086)	-52%	7,805	N/M
Total Revenues	<u>459,201</u>	<u>338,545</u>	<u>366,768</u>	<u>120,656</u>	<u>36%</u>	<u>(28,223)</u>	<u>-8%</u>
<b>Expenses</b>							
Compensation and Benefits							
Compensation	119,731	128,959	95,386	(9,228)	-7%	33,573	35%
Performance Fee Compensation							
Realized							
Incentive Fees	23,080	3,498	20,633	19,582	N/M	(17,135)	-83%
Unrealized							
Incentive Fees	1,317	234	1,067	1,083	N/M	(833)	-78%
Total Compensation and Benefits	<u>144,128</u>	<u>132,691</u>	<u>117,086</u>	<u>11,437</u>	<u>9%</u>	<u>15,605</u>	<u>13%</u>
Other Operating Expenses	57,809	65,072	51,360	(7,263)	-11%	13,712	27%
Total Expenses	<u>201,937</u>	<u>197,763</u>	<u>168,446</u>	<u>4,174</u>	<u>2%</u>	<u>29,317</u>	<u>17%</u>
Economic Income	<u>\$257,264</u>	<u>\$140,782</u>	<u>\$198,322</u>	<u>\$116,482</u>	<u>83%</u>	<u>\$(57,540)</u>	<u>-29%</u>

N/M Not meaningful.

#### Revenues

Revenues were \$459.2 million for the year ended December 31, 2012, an increase of \$120.7 million compared to \$338.5 million for the year ended December 31, 2011. The increase in revenues was primarily attributable to an increase of \$80.2 million in Performance Fees to \$92.5 million, an increase of \$27.3 million in Total Management Fees to \$345.0 million and an increase of \$17.1 million in Investment Income (Loss) to \$15.8 million.

Performance Fees were \$92.5 million for the year ended December 31, 2012, an increase of \$80.2 million compared to \$12.2 million for the year ended December 31, 2011, primarily due to higher returns. The returns of the underlying assets for Blackstone's Hedge Fund Solutions' funds were 8.6% during the year ended December 31, 2012. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was a result of the better performance of the underlying assets of the segment.

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Total Management Fees were \$345.0 million for the year ended December 31, 2012, an increase of \$27.3 million compared to \$317.7 million for the year ended December 31, 2011. Base Management Fees were \$346.2 million for the year ended December 31, 2012, an increase of \$30.3 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 15% from the prior year period, which was primarily from net inflows.

Investment Income (Loss) was \$15.8 million for the year ended December 31, 2012, an increase of \$17.1 million compared to \$(1.3) million for the year ended December 31, 2011. The increase in Investment Income (Loss) was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share.

Revenues were \$338.5 million for the year ended December 31, 2011, a decrease of \$28.2 million compared to the year ended December 31, 2010. The decrease in revenues was primarily attributed to decreases of \$47.4 million in Performance Fees to \$12.2 million and \$30.5 million in Investment Income (Loss) to \$(1.3) million, partially offset by an increase of \$41.7 million in Total Management Fees to \$317.7 million.

Total Management Fees were \$317.7 million for the year ended December 31, 2011, an increase of \$41.7 million compared to \$276.0 million for the year ended December 31, 2010. Base Management Fees were \$315.9 million for the year ended December 31, 2011, an increase of \$43.1 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 14% from the prior year period, which was primarily from net inflows.

Performance Fees were \$12.2 million for the year ended December 31, 2011, a decrease of \$47.4 million compared to \$59.6 million for the year ended December 31, 2010. Investment Income (Loss) was \$(1.3) million for the year ended December 31, 2011, a decrease of \$30.5 million from the prior year period. Both decreases reflect the lower returns in the segment in 2011 compared to 2010. The returns of the underlying assets for Blackstone's Hedge Fund Solutions' funds were -1.8% during the year ended December 31, 2011. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, also decreased during the year ended December 31, 2011 compared to the year ended December 31, 2010.

### *Expenses*

Expenses were \$201.9 million for the year ended December 31, 2012, an increase of \$4.2 million compared to the year ended December 31, 2011. The \$4.2 million increase was primarily attributed to a \$20.7 million increase in Performance Fee Compensation, partially offset by decreases in Compensation and Other Operating Expenses of \$9.2 million and \$7.3 million, respectively. Performance Fee Compensation was \$24.4 million for the year ended December 31, 2012, compared to \$3.7 million for the prior year period, primarily due to the increase in Performance Fees revenue described above. Compensation was \$119.7 million for the year ended December 31, 2012, a decrease of \$9.2 million, compared to \$129.0 million for the prior year period, primarily driven by the exit of our Asian mutual fund business. Other Operating Expenses decreased \$7.3 million to \$57.8 million for the year ended December 31, 2012, compared to \$65.1 million for the year ended December 31, 2011, primarily due to a decrease in limited partner placement fees that corresponds to a reduction in related commitments.

Expenses were \$197.8 million for the year ended December 31, 2011, an increase of \$29.3 million compared to the year ended December 31, 2010. The \$29.3 million increase was primarily attributed to a \$15.6 million increase in Total Compensation and Benefits and a \$13.7 million increase in Other Operating Expenses. Compensation was \$129.0 million for the year ended December 31, 2011, an increase of \$33.6 million, compared to \$95.4 million for the prior year period, primarily due to an increase in headcount to support the growth of the business. Other Operating Expenses increased \$13.7 million to \$65.1 million for the year ended December 31, 2011, compared to \$51.4 million for the year ended December 31, 2010, primarily due to an increase in professional fees related to the growth of the business and other expenses.

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### Operating Metrics

The following table presents information regarding our Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark and/or Hurdle (a)		
	As of December 31,			As of December 31,		
	2012	2011	2010	2012	2011	2010
BAAM Managed Funds (b)	\$23,790,415	\$20,568,234	\$16,367,845	78%	8%	76%

- (a) Estimated % Above High Water Mark and / or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and / or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at December 31, 2012 the incremental appreciation needed for the 22% of Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle to reach their respective High Water Marks and / or Hurdle was \$267.6 million, a decrease of \$649.0 million, or 70.8%, compared to \$916.6 million at December 31, 2011. Of the Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle as of December 31, 2012, 82% were within 5% of reaching their respective High Water Mark and / or Hurdle.

### Composite Returns

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

The following table presents the return information of the BAAM Managed Funds, Core Funds Composite:

Composite	Average Annual Returns (a)							
	Periods Ended December 31, 2012							
	One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, Core Funds Composite (b)	10%	9%	6%	5%	2%	1%	7%	6%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Core Funds Composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Core Funds Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments) and advisory platforms.

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### Credit

The following table presents our results of operations for our Credit segment:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
<b>Management Fees, Net</b>							
Base Management Fees	\$345,277	\$238,547	\$194,963	\$106,730	45%	\$ 43,584	22%
Transaction and Other Fees, Net	40,875	1,880	1,657	38,995	N/M	223	13%
Management Fee Offsets	(5,004)	(390)	(724)	(4,614)	N/M	334	46%
Total Management Fees, Net	<u>381,148</u>	<u>240,037</u>	<u>195,896</u>	<u>141,111</u>	<u>59%</u>	<u>44,141</u>	<u>23%</u>
<b>Performance Fees</b>							
<b>Realized</b>							
Carried Interest	52,511	78,670	71,981	(26,159)	-33%	6,689	9%
Incentive Fees	192,375	67,928	35,899	124,447	183%	32,029	89%
<b>Unrealized</b>							
Carried Interest	162,045	24,610	86,802	137,435	N/M	(62,192)	-72%
Incentive Fees	(38,234)	(29,360)	66,377	(8,874)	-30%	(95,737)	N/M
Total Performance Fees	<u>368,697</u>	<u>141,848</u>	<u>261,059</u>	<u>226,849</u>	<u>160%</u>	<u>(119,211)</u>	<u>-46%</u>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Carried Interest	15,611	11,299	9,700	4,312	38%	1,599	16%
Unrealized	4,769	(708)	9,472	5,477	N/M	(10,180)	N/M
Total Investment Income	<u>20,380</u>	<u>10,591</u>	<u>19,172</u>	<u>9,789</u>	<u>92%</u>	<u>(8,581)</u>	<u>-45%</u>
Interest and Dividend Revenue	9,330	3,369	3,038	5,961	177%	331	11%
Other	(1,174)	(853)	(488)	(321)	-38%	(365)	-75%
Total Revenues	<u>778,381</u>	<u>394,992</u>	<u>478,677</u>	<u>383,389</u>	<u>97%</u>	<u>(83,685)</u>	<u>-17%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	182,077	128,588	123,257	53,489	42%	5,331	4%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
Carried Interest	30,336	32,047	33,544	(1,711)	-5%	(1,497)	-4%
Incentive Fees	103,902	47,850	25,668	56,052	117%	22,182	86%
<b>Unrealized</b>							
Carried Interest	97,562	19,033	40,614	78,529	N/M	(21,581)	-53%
Incentive Fees	(45,262)	(24,099)	42,781	(21,163)	-88%	(66,880)	N/M
Total Compensation and Benefits	<u>368,615</u>	<u>203,419</u>	<u>265,864</u>	<u>165,196</u>	<u>81%</u>	<u>(62,445)</u>	<u>-23%</u>
Other Operating Expenses	<u>84,488</u>	<u>49,955</u>	<u>39,106</u>	<u>34,533</u>	<u>69%</u>	<u>10,849</u>	<u>28%</u>
Total Expenses	<u>453,103</u>	<u>253,374</u>	<u>304,970</u>	<u>199,729</u>	<u>79%</u>	<u>(51,596)</u>	<u>-17%</u>
Economic Income	<u>\$325,278</u>	<u>\$141,618</u>	<u>\$173,707</u>	<u>\$183,660</u>	<u>130%</u>	<u>\$ (32,089)</u>	<u>-18%</u>

N/M Not meaningful.

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### *Revenues*

Revenues were \$778.4 million for the year ended December 31, 2012, an increase of \$383.4 million compared to the year ended December 31, 2011. This change was primarily attributable to increases of \$226.8 million in Performance Fees and \$141.1 million in Total Management Fees.

Performance Fees were \$368.7 million for the year ended December 31, 2012, an increase of \$226.8 million compared to the prior year period. This change was attributable to a higher rate of appreciation in our investment funds driven by favorable credit markets and strong underlying company performance in the portfolios of our carry funds. The net returns of Blackstone's Credit segment funds were 13.4% for the hedge funds, 26.2% for the mezzanine funds and 15.7% for the rescue lending funds for the year ended December 31, 2012.

Total Management Fees were \$381.1 million for the year ended December 31, 2012, an increase of \$141.1 million compared to the prior year period. This change was primarily attributable to an increase of \$106.7 million in Base Management Fees due to the significant growth in our Fee-Earning Assets Under Management and an increase of \$39.0 million in Transaction and Other Fees primarily due to waiver and amendment fees earned by certain CLOs.

Revenues were \$395.0 million for the year ended December 31, 2011, a decrease of \$83.7 million compared to the year ended December 31, 2010. This change was primarily attributed to lower Performance Fees of \$141.8 million compared to \$261.1 million for the year ended December 31, 2010. This was partially offset by an increase of \$44.1 million, or 23%, in Total Management Fees.

Performance Fees were \$141.8 million for the year ended December 31, 2011, which is \$119.2 million lower than the prior year period. The lower Performance Fees were primarily attributable to a slower increase of the carrying value of the underlying assets. The returns of the underlying assets for Blackstone's credit-focused business were 8.9% for the flagship hedge funds, 28.1% for the mezzanine funds and 4.4% for the rescue lending funds for the year ended December 31, 2011.

The Realized Performance Fees for the year ended December 31, 2011 of \$146.6 million were driven primarily by realizations in the mezzanine funds and incentive fees realized in the hedge funds.

Total Management Fees were \$240.0 million for the year ended December 31, 2011, an increase of \$44.1 million from the prior year period. Base Management Fees were \$238.5 million for the year ended December 31, 2011, an increase of \$43.6 million compared to the prior year period, primarily due to higher Fee-Earning Assets Under Management.

### *Expenses*

Expenses were \$453.1 million for the year ended December 31, 2012, an increase of \$199.7 million, or 79%, compared to the year ended December 31, 2011. The increase in expenses was attributed to increases of \$111.7 million in Performance Fee Compensation due to greater Total Performance Fees, \$53.5 million in Compensation due to greater Total Management Fees and \$34.5 million in Other Operating Expenses primarily due to greater start up costs and professional fees related to launching new products.

Expenses were \$253.4 million for the year ended December 31, 2011, a decrease of \$51.6 million, or 17%, compared to the year ended December 31, 2010. The \$51.6 million decrease in expenses was primarily attributed to a decrease of \$67.8 million in Performance Fee Compensation, partially offset by increases of \$5.3 million in Compensation and \$10.8 million in Other Operating Expenses. Performance Fee Compensation was \$74.8 million for the year ended December 31, 2011, compared to \$142.6 million for the prior year period. The decrease was primarily due a decrease of \$119.2 million in Performance Fees compared to the prior year period due to the reasons noted above. Compensation increased \$5.3 million to \$128.6 million for the year ended

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December 31, 2011, compared to \$123.3 million for the prior year period. Other Operating Expenses increased \$10.8 million to \$50.0 million for the year ended December 31, 2011, compared to \$39.1 million for the prior year period primarily due to increases in professional fees related to business development and fund-raising activities.

### Fund Returns

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the return information of the segment's Flagship Hedge Funds:

Fund	Average Annual Returns (a)							
	Periods Ended							
	December 31, 2012							
	One Year		Three Year		Five Year		Historical	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Flagship Hedge Funds (b)	18%	13%	16%	12%	10%	7%	12%	8%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- Average annual returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- The Flagship Hedge Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

The following table presents the Internal Rates of Return of our significant Credit drawdown funds:

Fund (a)	Year Ended December 31,						December 31, 2012	
	2012		2011		2010		Inception to Date	
	Gross	Net	Gross	Net	Gross	Net	Total	Net
Mezzanine Funds (b)	37%	26%	28%	22%	25%	18%	26%	19%
Rescue Lending Funds (c)	21%	16%	4%	2%	67%	36%	21%	14%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- The Mezzanine Funds' returns represent the weighted-average return for U.S. domestic and offshore funds including, as applicable, for the new significant mezzanine fund. The inception to date return is from July 16, 2007, which is before Blackstone's acquisition of GSO in March 2008.
- The Rescue Lending Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of December 31, 2012, the significant Credit drawdown funds were above their respective Carried Interest thresholds.

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### Financial Advisory

The following table presents our results of operations for our Financial Advisory segment:

	Year Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	\$	%	\$	%
(Dollars in Thousands)							
<b>Segment Revenues</b>							
Advisory Fees	\$357,417	\$382,240	\$426,140	\$(24,823)	-6%	\$(43,900)	-10%
Transaction and Other Fees, Net	295	321	362	(26)	-8%	(41)	-11%
Total Advisory and Transaction Fees	<u>357,712</u>	<u>382,561</u>	<u>426,502</u>	<u>(24,849)</u>	<u>-6%</u>	<u>(43,941)</u>	<u>-10%</u>
<b>Investment Income</b>							
Realized	1,392	594	814	798	134%	(220)	-27%
Unrealized	1,348	304	534	1,044	N/M	(230)	-43%
Total Investment Income	<u>2,740</u>	<u>898</u>	<u>1,348</u>	<u>1,842</u>	<u>N/M</u>	<u>(450)</u>	<u>-33%</u>
Interest and Dividend Revenue	7,157	6,799	5,972	358	5%	827	14%
Other	(804)	(383)	(1,912)	(421)	-110%	1,529	80%
Total Revenues	<u>366,805</u>	<u>389,875</u>	<u>431,910</u>	<u>(23,070)</u>	<u>-6%</u>	<u>(42,035)</u>	<u>-10%</u>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
Compensation	235,137	248,695	277,949	(13,558)	-5%	(29,254)	-11%
Other Operating Expenses	84,589	81,538	70,272	3,051	4%	11,266	16%
Total Expenses	<u>319,726</u>	<u>330,233</u>	<u>348,221</u>	<u>(10,507)</u>	<u>-3%</u>	<u>(17,988)</u>	<u>-5%</u>
Economic Income	<u>\$ 47,079</u>	<u>\$ 59,642</u>	<u>\$ 83,689</u>	<u>\$(12,563)</u>	<u>-21%</u>	<u>\$(24,047)</u>	<u>-29%</u>

N/M Not meaningful.

#### Revenues

Revenues were \$366.8 million for the year ended December 31, 2012, a decrease of \$23.1 million, or 6%, compared to \$389.9 million for the year ended December 31, 2011. The decrease in revenues was driven primarily by decreases in Blackstone's fund placement business and in Blackstone Advisory Partners' business, partially offset by an increase in Blackstone's restructuring and reorganization business. The decrease in fees earned by Blackstone's fund placement business was due to decreases in the fund-raising of capital from institutional investors for alternative investment products compared to the prior year period. The decrease in Blackstone Advisory Partners' business was due to a small decline in the number and size of transactions completed relative to the prior year. The increase in Blackstone's restructuring and reorganization business was driven primarily by an increase in the size and number of transactions that closed in 2012 as compared to the prior year.

Revenues were \$389.9 million for the year ended December 31, 2011, a decrease of \$42.0 million, or 10%, compared to \$431.9 million for the year ended December 31, 2010. The decrease in revenues was driven primarily by decreases in Blackstone's restructuring and reorganization business and in Blackstone Advisory Partners' business, partially offset by an increase in Blackstone's fund placement business. The decrease in Blackstone's restructuring and reorganization business was driven primarily by a cyclical decline across the restructuring industry from a peak in 2009 as the global economy continued to stabilize during 2011. The decrease in Blackstone Advisory Partners' business was due to a modest decline in transaction activity compared to the prior year period. The increase in fees earned by Blackstone's fund placement business was due to improvements in the fund-raising of capital from institutional investors for alternative investment products compared to the prior year period.



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### *Expenses*

Expenses were \$319.7 million for the year ended December 31, 2012, a decrease of \$10.5 million, or 3%, compared to \$330.2 million for the year ended December 31, 2011. Compensation and Benefits decreased \$13.6 million compared to the year ended December 31, 2011, principally due to decreases in compensation expense in Blackstone Advisory Partners' and fund placement business, partially offset by an increase in such costs in our restructuring and reorganization business. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses increased \$3.1 million over the year ended December 31, 2011, principally due to increases in consulting fees related to various non-recurring deals and other expenses allocated to the segment.

Expenses were \$330.2 million for the year ended December 31, 2011, a decrease of \$18.0 million, or 5%, compared to \$348.2 million for the year ended December 31, 2010. Compensation and Benefits decreased \$29.3 million compared to the year ended December 31, 2010, principally due to a decrease in compensation expense in our restructuring and reorganization business and Blackstone Advisory Partners' business, partially offset by an increase in such costs in our fund placement business. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses increased \$11.3 million over the year ended December 31, 2010, principally due to increases in all other expenses, partially offset by a decrease in bad debt expenses.

## **Liquidity and Capital Resources**

### *General*

Blackstone's business model derives revenue primarily from third party assets under management and from advisory businesses. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, or pay distributions to unitholders.

Fluctuations in our balance sheet result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our balance sheet also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$28.9 billion as of December 31, 2012, an increase of \$7.0 billion from December 31, 2011. The increase in total assets was primarily attributable to a \$5.7 billion increase in Investments mainly due to acquisitions of the management contracts of certain CLO vehicles that were consolidated during 2012. Total liabilities were \$17.7 billion as of December 31, 2012, an increase of \$5.1 billion from December 31, 2011. The increase in total liabilities was primarily due to an increase in Loans Payable of \$4.2 billion, related to the acquisition of the management contracts of certain CLO vehicles that were consolidated during 2012 as well as our August 2012 debt issuance.

For the year ended December 31, 2012, we had Total Fee Related Revenues of \$2.2 billion and related expenses of \$1.5 billion, generating Fee Related Earnings of \$700.3 million and Distributable Earnings of \$1.0 billion.

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### *Sources of Liquidity*

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010 and 2012 issuances of senior notes. On July 13, 2012, an indirect subsidiary of Blackstone amended its revolving credit facility. The amendment is described in Note 12. "Borrowings." in the "Notes to Consolidated Financial Statements" in Part II. Item 8. Financial Statements and Supplementary Data. As of December 31, 2012, Blackstone had \$709.5 million in cash, \$1.4 billion invested in Blackstone's Treasury cash management strategies, \$135.3 million invested in liquid Blackstone Funds, \$2.0 billion invested in illiquid Blackstone Funds and \$146.4 million invested in other investments, against \$1.6 billion in borrowings from our 2009, 2010 and 2012 bond issuances, and no borrowings outstanding under its revolving credit facility.

In addition to the cash we received in connection with our IPO, debt offerings and our borrowing facilities, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

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The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
Base Management Fees (a)	\$ 1,591,403	\$1,281,185	\$1,069,471
Advisory Fees (a)	357,417	382,240	426,140
Transaction and Other Fees, Net (a)	227,119	247,513	137,748
Management Fee Offsets (a)	(40,953)	(33,393)	(2,313)
Interest Income and Other Revenue (b)	77,548	50,859	50,755
Compensation (a)	(1,030,776)	(960,569)	(859,114)
Other Operating Expenses (a)	(481,445)	(421,342)	(344,516)
<b>Fee Related Earnings</b>	<b>700,313</b>	<b>546,493</b>	<b>478,171</b>
Net Realized Incentive Fees (b)	161,422	33,117	59,100
Net Realized Carried Interest (b)	230,989	95,292	174,247
Net Realized Investment Income (b)	73,526	96,518	39,133
Taxes and Related Payables (c)	(132,325)	(74,696)	(48,867)
<b>Distributable Earnings</b>	<b>1,033,925</b>	<b>696,724</b>	<b>701,784</b>
Net Unrealized Incentive Fees (b)	15,217	(4,169)	44,318
Net Unrealized Carried Interest (b)	672,591	733,574	291,662
Net Unrealized Investment Income (b)	186,949	84,146	494,139
Add Back: Related Payables (d)	86,617	28,933	19,935
<b>Economic Net Income</b>	<b>\$ 1,995,299</b>	<b>\$1,539,208</b>	<b>\$1,551,838</b>

(a) Represents the total segment amounts of the respective captions.

(b) Detail on this amount is included in the table below.

(c) Represents the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and the Payable Under Tax Receivable Agreement.

(d) Represents tax related payables including the Payable Under Tax Receivable Agreement.

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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

	Year Ended December 31,		
	2012	2011	2010
Interest Income and Dividend Revenue (a)	\$ 46,630	\$ 38,844	\$ 36,096
Other Revenue (a)	5,149	7,415	(618)
Investment Income—Blackstone’s Treasury Cash Management Strategies (b)	25,769	4,600	15,277
Interest Income and Other Revenue	<u>\$ 77,548</u>	<u>\$ 50,859</u>	<u>\$ 50,755</u>
Realized Incentive Fees (a)	301,464	89,029	116,700
Less: Realized Incentive Fee Compensation (a)	(140,042)	(55,912)	(57,600)
Net Realized Incentive Fees	<u>\$ 161,422</u>	<u>\$ 33,117</u>	<u>\$ 59,100</u>
Realized Carried Interest (a)	\$ 327,422	\$ 138,907	\$ 244,963
Less: Realized Carried Interest Compensation (a)	(96,433)	(43,615)	(70,716)
Net Realized Carried Interest	<u>\$ 230,989</u>	<u>\$ 95,292</u>	<u>\$ 174,247</u>
Realized Investment Income (a)	\$ 95,398	\$ 102,575	\$ 46,915
Adjustment Related to Realized Investment Income—Blackstone’s Treasury Cash Management Strategies (c)	(21,872)	(6,057)	(7,782)
Net Realized Investment Income	<u>\$ 73,526</u>	<u>\$ 96,518</u>	<u>\$ 39,133</u>
Unrealized Incentive Fees (a)	\$ (29,311)	\$ (24,928)	\$ 107,624
Less: Unrealized Incentive Fee Compensation (a)	44,528	20,759	(63,306)
Net Unrealized Incentive Fees	<u>\$ 15,217</u>	<u>\$ (4,169)</u>	<u>\$ 44,318</u>
Unrealized Carried Interest (a)	\$ 994,190	\$ 971,518	\$ 457,002
Less: Unrealized Carried Interest Compensation (a)	(321,599)	(237,944)	(165,340)
Net Unrealized Carried Interest	<u>\$ 672,591</u>	<u>\$ 733,574</u>	<u>\$ 291,662</u>
Unrealized Investment Income (a)	\$ 190,846	\$ 82,689	\$ 501,634
Less: Investment Income—Blackstone’s Treasury Cash Management Strategies (b)	(25,769)	(4,600)	(15,277)
Less: Adjustment Related to Realized Investment Income—Blackstone’s Treasury Cash Management Strategies (c)	21,872	6,057	7,782
Net Unrealized Investment Income	<u>\$ 186,949</u>	<u>\$ 84,146</u>	<u>\$ 494,139</u>

(a) Represents the total segment amounts of the respective captions.

(b) Represents the inclusion of Investment Income from Blackstone’s Treasury cash management strategies.

(c) Represents the elimination of Realized Investment Income attributable to Blackstone’s Treasury cash management strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

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The following table is a reconciliation of Net Income (Loss) Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	\$ 218,598	\$ (168,303)	\$ (370,028)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	407,727	(83,234)	(668,444)
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	99,959	7,953	343,498
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	103,598	(24,869)	87,651
<b>Net Income (Loss)</b>	829,882	(268,453)	(607,323)
Provision for Taxes	185,023	345,711	84,669
<b>Income (Loss) Before Provision for Taxes</b>	1,014,905	77,258	(522,654)
IPO and Acquisition-Related Charges (a)	1,079,511	1,269,932	2,369,195
Amortization of Intangibles (b)	150,148	220,865	165,378
Income (Loss) Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities (c)	(203,557)	16,916	(431,149)
<b>Economic Income</b>	2,041,007	1,584,971	1,580,770
Taxes (d)	(45,708)	(45,763)	(28,932)
<b>Economic Net Income</b>	1,995,299	1,539,208	1,551,838
Taxes (d)	45,708	45,763	28,932
Performance Fee Adjustment (e)	(1,593,765)	(1,174,526)	(926,289)
Investment Income (Loss) Adjustment (f)	(286,244)	(185,264)	(548,549)
Investment Income—Blackstone's Treasury Cash Management Strategies (g)	25,769	4,600	15,277
Performance Fee Compensation and Benefits Adjustment (h)	513,546	316,712	356,962
<b>Fee Related Earnings</b>	700,313	546,493	478,171
Realized Performance Fees (i)	392,411	128,409	233,347
Realized Investment Income (j)	95,398	102,575	46,915
Adjustment Related to Realized Investment Income—Blackstone's Treasury Cash Management Strategies (k)	(21,872)	(6,057)	(7,782)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	(132,325)	(74,696)	(48,867)
<b>Distributable Earnings</b>	1,033,925	696,724	701,784
Interest	69,152	53,201	36,666
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	132,325	74,696	48,867
Depreciation and Amortization	42,235	32,764	26,629
<b>Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization</b>	<u>\$ 1,277,637</u>	<u>\$ 857,385</u>	<u>\$ 813,946</u>

(a) The adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.

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- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents the realized and unrealized gain on Blackstone's Treasury cash management strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss)—Realized.
- (k) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).
- (l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.

Amortization of non-cash deferred compensation included in Economic Income was \$90.0 million, \$84.6 million and \$68.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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### Liquidity Needs

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of December 31, 2012 consisted of the following:

<u>Fund</u>	<u>Original Commitment</u>	<u>Remaining Commitment</u>
<b>Private Equity</b>		
(Dollars in Thousands)		
BCP VI	\$ 719,718	\$ 580,412
BCP V	629,356	68,630
BCP IV	150,000	5,278
BCOM	50,000	4,762
Blackstone Energy Partners (“BEP”)	50,000	39,878
China Fund (“RMB”)	8,983	7,907
Tactical Opportunities	32,600	27,238
Woori Blackstone Korea I	5,698	1,679
Blackstone Clean Technology Partners	4,575	363
<b>Real Estate Funds</b>		
BREP VII	300,000	172,424
BREP VI	750,000	52,170
BREP V	52,545	2,313
BREP International II	27,227	1,652
BREP Europe III	100,000	38,022
Capital Trust Opportunity Partners I	25,000	14,797
Capital Trust High Grade Partners II	2,935	480
Blackstone Real Estate Special Situations Fund II	42,508	16,395
Blackstone Real Estate Special Situations Fund G	2,500	547
Blackstone Commercial Real Estate Debt Fund	10,000	1,956
<b>Hedge Fund Solutions</b>		
Strategic Alliance II	50,000	26,361
Strategic Alliance	50,000	2,033
<b>Credit</b>		
Capital Opportunities Fund II L.P. (“COF II”)	120,000	98,607
Blackstone / GSO Capital Solutions	50,000	10,518
BMezz	41,000	2,590
Blackstone Credit Liquidity Partners	32,244	3,192
BMezz II	17,692	3,085
Other (a)	27,385	15,931
<b>Total</b>	<b><u>\$3,351,966</u></b>	<b><u>\$1,199,220</u></b>

(a) Represents capital commitments to a number of other Credit funds.

For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. For

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BCP VI, BREP VI, BREP Europe III, BREP VII, Tactical Opportunities and COF II, it is intended that our senior managing directors and certain other professionals will fund \$250 million, \$150 million, \$35 million, \$100 million, \$7 million and \$110 million, respectively, of the aggregate applicable general partner original commitment shown above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

On March 23, 2010, indirect subsidiaries of Blackstone entered into an unsecured revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent. On November 23, 2010, the Credit Facility was amended to set the facility aggregate borrowing limit at \$1.02 billion. On April 8, 2011, the Credit Facility was amended to extend the maturity date from March 23, 2013 to April 8, 2016. On July 13, 2012, the Credit Facility was further amended to increase the borrowing capacity from \$1.02 billion to \$1.1 billion and to extend the maturity date from April 8, 2016 to July 13, 2017. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. (These issuances of Senior Notes are collectively referred to as the “Notes”.) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors’ ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2012, no units were repurchased. As of December 31, 2012, the amount remaining under this program available for repurchases was \$335.8 million.

### *Distributions*

Distributable Earnings, which is derived from Blackstone’s segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including



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Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

With respect to fiscal year 2012, we have paid to common unitholders distributions of \$0.10 per common unit in respect of each of the first three quarters and an additional distribution of \$0.42 per common unit in respect of the fourth quarter. With respect to fiscal years 2011 and 2010, we paid aggregate distributions of \$0.52 per common unit and \$0.62 per common unit, respectively, to record holders of common units.

With respect to fiscal year 2012, we have paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships distributions of \$0.10 per Blackstone Holdings partnership unit in respect of each of the first three quarters and an additional distribution of \$0.58 per Blackstone Holdings partnership unit in respect of the fourth quarter. With respect to fiscal years 2011 and 2010, we paid aggregate distributions of \$0.58 per Blackstone Holdings partnership unit and \$0.65 per Blackstone Holdings partnership unit, respectively.

### *Leverage*

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders, including through the issuance of debt securities. As of December 31, 2012, we had total partners' capital of \$9.7 billion, including \$709.5 million in cash, \$1.4 billion invested in Blackstone's Treasury cash management strategies, \$135.3 million invested in liquid Blackstone Funds, \$2.0 billion invested in illiquid Blackstone Funds and \$146.4 million invested in other investments, against \$1.6 billion in borrowings from our 2009, 2010 and 2012 bond issuances.

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Included in our Treasury cash management strategies are reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles. The following table presents information regarding these financial instruments:

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
Balance, December 31, 2012	\$ 248.0	\$ 142.3	\$ 226.4
Balance, December 31, 2011	\$ 139.5	\$ 101.8	\$ 143.8
Year Ended December 31, 2012			
Average Daily Balance	\$ 117.2	\$ 109.5	\$ 126.7
Maximum Daily Balance	\$ 248.0	\$ 206.1	\$ 244.5

Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than (a) for short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

### Critical Accounting Policies

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.)

### Principles of Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone

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Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings. Income (Loss) attributable to Blackstone Holdings, excluding certain costs and expenses borne directly by Blackstone Holdings, is calculated based on the year to date average percentage of Blackstone Holdings partnership units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance, and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE, and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- The entity has all of the attributes of an investment company as defined under AICPA Accounting and Auditing Guide, *Investment Companies* (“Investment Company Guide”), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the consolidation guidance as discussed in Note 2. “Summary of Significant Accounting Policies, Recent Accounting Developments” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data”, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continuously. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

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### *Revenue Recognition*

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business—Incentive Arrangements / Fee Structure” for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees* —Management and Advisory Fees are comprised of management fees, including base management fees, transaction and other fees, management fee reductions and offsets, and advisory fees.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital, invested capital or, in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

- 0.30% to 1.75% of committed capital or invested capital during the investment period,
- 0.75% to 1.75% of invested capital subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital or net asset value for certain credit-focused funds.

On credit-focused funds structured like hedge funds:

- 1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

- 0.25% to 1.40% of net asset value or invested capital.

On funds of hedge funds and separately managed accounts invested in hedge funds:

- 0.50% to 1.25% of net asset value.

On CLO and CDO vehicles:

- 0.05% to 1.25% of total assets or invested capital.

On credit-focused registered investment companies:

- 0.50% to 1.50% of fund assets or net asset value.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds.

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Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Consolidated Statements of Financial Condition.

*Performance Fees*— Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of the preferred return. Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds’ investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund’s life or one year after a realized loss is incurred, depending on the terms of the fund.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership’s principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions, from its non-consolidated funds. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

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*Interest and Dividend Revenue* —Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* —Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

### *Expenses*

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits—Compensation* —Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

*Compensation and Benefits—Performance Fee* —Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone’s firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

### *Fair Value of Financial Instruments*

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

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

- Level I—Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III—Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of

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fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, corporate bonds and loans held within CLO vehicles, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles generally are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

### *Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.
- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques—Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Used in Fair Value Hedging Strategies are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

### *Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into

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consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments*—The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Private equity investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

*Real Estate Investments*—The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (“cap rates”) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment’s fair value.

*Funds of Hedge Funds*—Blackstone Funds’ direct investments in funds of hedge funds (“Investee Funds”) are valued at net asset value (“NAV”) per share of the Investee Fund. If the Partnership determines, based on its own due diligence and investment procedures, that NAV per share does not represent fair value, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee’s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side-pocket investments, at the discretion of the investee’s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side-pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side-pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the observability of pricing inputs as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. “Net Asset Value as Fair Value” in the “Notes to Consolidated Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data” of this filing.

*Credit-Focused Investments*—The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.



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*Credit-Focused Liabilities* —Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone’s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

### *Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone’s weighted average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone’s investments are reviewed quarterly by a valuation committee which is chaired by Blackstone’s Vice Chairman and includes senior heads of each of Blackstone’s businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone’s investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee as well as the senior heads of each of Blackstone’s businesses. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

### *Investments, at Fair Value*

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the “Portfolio Companies”), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds’ investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone’s principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers as described in Note 3. “Acquisitions, Goodwill and Intangible Assets.” The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and

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acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force ("EITF"). Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate, and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

### Intangibles and Goodwill

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 4 to 20 years, reflecting the contractual lives of such funds. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO and the acquisition of GSO in 2008.

The carrying value of goodwill was \$1.7 billion as of December 31, 2012 and December 31, 2011. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. As of December 31, 2012, we evaluated that it was not more likely than not that the fair value of the Partnership's operating segments was less than their respective carrying values. As of December 31, 2011, the fair value of the Partnership's operating segments substantially exceeded their respective carrying values.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. In 2012, Blackstone performed a qualitative assessment to determine if it was more likely than not that the fair value of its operating segments was less than their respective carrying values. In prior periods, Blackstone performed a quantitative assessment to evaluate the fair value of our operating segments. In determining fair value for each of our segments, we utilized a discounted cash flow methodology based on the adjusted cash flows from operations for each segment. We believed this method provides the best approximation of fair value. In calculating the discounted cash flows, we began with the adjusted cash flows from operations of

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each segment. We then determined the most likely growth rate by operating segment for each of the next four years and assume a terminal value by segment. We did not apply a control premium. The discounted cash flow analysis included the Blackstone issued notes and borrowings under the revolving credit facility, if any, and included an allocation of interest expense to each segment for the unused commitment fee on Blackstone's revolving credit facility. We used a discount rate that reflected the weighted average cost of capital adjusted for the risks inherent in the future cash flows.

### Off-Balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing as follows:

- Note 6. "Derivative Financial Instruments",
- Note 9. "Variable Interest Entities", and
- Note 17. "Commitments and Contingencies—Commitments, Operating Leases;—Commitments, Investment Commitments; and—Contingencies, Guarantees".

### Recent Accounting Developments

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data".

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### Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of December 31, 2012 on a consolidated basis and on a basis deconsolidating the Blackstone funds:

<u>Contractual Obligations</u>	<u>2013</u>	<u>2014-2015</u>	<u>2016-2017</u> (Dollars in Thousands)	<u>Thereafter</u>	<u>Total</u>
Operating Lease Obligations (a)	\$ 67,883	\$ 122,634	\$ 107,215	\$ 178,771	\$ 476,503
Purchase Obligations	16,601	10,906	480	—	27,987
Blackstone Issued Notes and Revolving Credit Facility (b)	—	—	—	1,635,000	1,635,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	96,890	193,762	193,762	620,515	1,104,929
Blackstone Operating Entities Loan and Credit Facilities Payable (d)	1,188	5,040	—	—	6,228
Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e)	58	26	—	—	84
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	102,111	18,825	—	12,870,208	12,991,144
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	174,178	335,814	335,814	538,176	1,383,982
Blackstone Funds Capital Commitments to Investee Funds (h)	42,103	—	—	—	42,103
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (i)	—	171,650	142,539	946,161	1,260,350
Unrecognized Tax Benefits, Including Interest and Penalties (j)	5,885	—	—	—	5,885
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (k)	<u>1,199,220</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,199,220</u>
Consolidated Contractual Obligations	<u>1,706,117</u>	<u>858,657</u>	<u>779,810</u>	<u>16,788,831</u>	<u>20,133,415</u>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	(102,111)	(18,825)	—	(12,870,208)	(12,991,144)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	(174,178)	(335,814)	(335,814)	(538,176)	(1,383,982)
Blackstone Funds Capital Commitments to Investee Funds (h)	<u>(42,103)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(42,103)</u>
Blackstone Operating Entities Contractual Obligations	<u>\$1,387,725</u>	<u>\$ 504,018</u>	<u>\$ 443,996</u>	<u>\$ 3,380,447</u>	<u>\$ 5,716,186</u>

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of December 31, 2012, we had no outstanding borrowings under our revolver.

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- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no prepayments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) Represents borrowings for a capital asset facility.
- (e) Represents interest to be paid over the maturity of the related debt obligation which has been calculated assuming no prepayments are made and debt is held until its final maturity date. The future interest payments are calculated using variable rates in effect as of December 31, 2012, at spreads to market rates pursuant to the financing agreements, at 1.03%.
- (f) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (g) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no prepayments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of December 31, 2012, at spreads to market rates pursuant to the financing agreements, and range from 0.38% to 17.00%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
- (h) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (i) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated Financial Statements and shown in Note 16. "Related Party Transactions" (see "Part II. Item 8. Financial Statements and Supplementary Data") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (j) The total represents gross unrecognized tax benefits of \$4.0 million and interest and penalties of \$1.9 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$26.8 million and interest of \$4.4 million; therefore, such amounts are not included in the above contractual obligations table.
- (k) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

### *Guarantees*

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 17. "Commitments and Contingencies—Contingencies—Guarantees" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.

### *Indemnifications*

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated Financial Statements as of December 31, 2012.

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### *Clawback Obligations*

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate and multi-asset class investment funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2018. Further extensions of such terms may be implemented under given circumstances.

As of December 31, 2012, the clawback obligations were \$267.1 million, of which \$101.8 million related to Blackstone Holdings and \$165.3 million related to current and former Blackstone personnel. (See Note 16. "Related Party Transactions" and Note 17. "Commitments and Contingencies" in the "Notes to Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing.)

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as adviser to certain of our hedge fund solutions and credit funds, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

### **Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's

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life cycle. For the years ended December 31, 2012 and December 31, 2011, the approximate percentage of our fund management fees based on the NAV of the applicable funds or separately managed accounts, are as follows:

	As of December 31,	
	2012	2011
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	27%	32%

## Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2012 and December 31, 2011, we estimate that a 10% decline in fair value of the investments would result in declines in the following items:

	December 31,					
	2012			2011		
	Management	Performance Fees, Net of the Related Compensation	Investment	Management	Performance Fees, Net of the Related Compensation	Investment
	Fees	Expense	Income	Fees	Expense	Income
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 51,672	\$ 1,175,115	\$ 256,479	\$ 41,456	\$ 877,202	\$ 242,216

Total assets under management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 32,367,802	68%
Real Estate	44,539,227	95%
Hedge Fund Solutions	44,812,075	73%
Credit	24,615,004	40%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I, Item 1A. Risk Factors" above. Also see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Investments, at Fair Value.") We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund. But if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

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### Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2012 and December 31, 2011, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in declines in the following items:

	December 31,					
	2012			2011		
	Management	Performance Fees, Net of the Related Compensation	Investment	Management	Performance Fees, Net of the Related Compensation	Investment
	Fees	Expense	Income	Fees	Expense	Income
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 13,175	\$ 123,435	\$ 34,448	\$ 8,655	\$ 120,504	\$ 34,784

### Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2012 and December 31, 2011, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	December 31,	
	2012	2011
	(Dollars in Thousands)	
Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 301	\$ 4,782

Blackstone's Treasury cash management strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the "Treasury Liquidity Portfolio"). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. We estimate that our annualized investment income would decrease by \$22.1 million, or 1.0% of the Treasury Liquidity Portfolio, if interest rates were to increase by one percentage point. This would be offset by an estimated increase in interest income of \$5.4 million on an annual basis from interest on floating rate assets.

### Credit Risk

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our investment income would decrease by \$20.1 million, or 0.9% of the Treasury Liquidity Portfolio, if credit spreads were to increase by one percentage point.



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Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Independent Registered Public Accounting Firm**

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2012. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our

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opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission .

As discussed in Note 2 to the consolidated financial statements, Blackstone has changed its method of presenting comprehensive income in 2012 due to the adoption of FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* . The change in presentation has been applied retrospectively to all periods presented.

/s/ *DELOITTE & TOUCHE LLP*

New York, New York

March 1, 2013

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

	December 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and Cash Equivalents	\$ 709,502	\$ 754,744
Cash Held by Blackstone Funds and Other	1,404,411	724,762
Investments (including assets pledged of \$141,931 and \$101,298 at December 31, 2012 and December 31, 2011, respectively)	20,847,270	15,128,299
Accounts Receivable	638,164	406,140
Reverse Repurchase Agreements	248,018	139,485
Due from Affiliates	1,120,067	860,514
Intangible Assets, Net	598,535	595,488
Goodwill	1,703,602	1,703,602
Other Assets	376,372	337,396
Deferred Tax Assets	1,285,611	1,258,699
<b>Total Assets</b>	<b><u>\$28,931,552</u></b>	<b><u>\$21,909,129</u></b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$13,051,404	\$ 8,867,568
Due to Affiliates	2,002,644	1,811,468
Accrued Compensation and Benefits	1,254,978	903,260
Securities Sold, Not Yet Purchased	226,425	143,825
Repurchase Agreements	142,266	101,849
Accounts Payable, Accrued Expenses and Other Liabilities	1,038,888	828,873
<b>Total Liabilities</b>	<b><u>17,716,605</u></b>	<b><u>12,656,843</u></b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b><u>1,556,185</u></b>	<b><u>1,091,833</u></b>
<b>Partners' Capital</b>		
Partners' Capital (common units: 556,354,387 issued and outstanding as of December 31, 2012; 489,430,907 issued and outstanding as of December 31, 2011)	4,955,649	4,281,841
Appropriated Partners' Capital	509,028	386,864
Accumulated Other Comprehensive Income	2,170	1,958
Non-Controlling Interests in Consolidated Entities	1,443,559	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,748,356	2,460,520
<b>Total Partners' Capital</b>	<b><u>9,658,762</u></b>	<b><u>8,160,453</u></b>
<b>Total Liabilities and Partners' Capital</b>	<b><u>\$28,931,552</u></b>	<b><u>\$21,909,129</u></b>

continued...

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands)**

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The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	<b>December 31,</b> <b>2012</b>	<b>December 31,</b> <b>2011</b>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 1,163,915	\$ 598,441
Investments	12,320,611	8,961,960
Accounts Receivable	187,343	33,405
Due from Affiliates	27,034	36,502
Other Assets	35,447	12,031
<b>Total Assets</b>	<b><u>\$13,734,350</u></b>	<b><u>\$9,642,339</u></b>
<b>Liabilities</b>		
Loans Payable	\$11,375,877	\$7,801,136
Due to Affiliates	253,546	311,909
Accounts Payable, Accrued Expenses and Other	518,656	244,488
<b>Total Liabilities</b>	<b><u>\$12,148,079</u></b>	<b><u>\$8,357,533</u></b>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Operations**  
**(Dollars in Thousands, Except Unit and Per Unit Data)**

	Year Ended December 31,		
	2012	2011	2010
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,030,693	\$ 1,811,750	\$ 1,584,748
Performance Fees			
Realized			
Carried Interest	327,422	138,907	244,963
Incentive Fees	301,801	90,099	121,758
Unrealized			
Carried Interest	994,190	971,518	457,002
Incentive Fees	(30,361)	(17,864)	114,111
Total Performance Fees	<u>1,593,052</u>	<u>1,182,660</u>	<u>937,834</u>
Investment Income			
Realized	93,963	87,542	29,157
Unrealized	256,231	125,781	532,004
Total Investment Income	<u>350,194</u>	<u>213,323</u>	<u>561,161</u>
Interest and Dividend Revenue	40,354	37,427	36,218
Other	5,148	7,416	(619)
<b>Total Revenues</b>	<u>4,019,441</u>	<u>3,252,576</u>	<u>3,119,342</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	2,091,698	2,421,712	3,253,226
Performance Fee Compensation			
Realized			
Carried Interest	96,433	43,615	70,716
Incentive Fees	140,042	55,912	57,600
Unrealized			
Carried Interest	321,599	237,945	165,340
Incentive Fees	(44,528)	(20,759)	63,307
Total Compensation and Benefits	<u>2,605,244</u>	<u>2,738,425</u>	<u>3,610,189</u>
General, Administrative and Other	548,738	566,313	466,358
Interest Expense	72,870	57,824	41,229
Fund Expenses	33,829	25,507	26,214
<b>Total Expenses</b>	<u>3,260,681</u>	<u>3,388,069</u>	<u>4,143,990</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	—	197,816	—
Net Gains from Fund Investment Activities	256,145	14,935	501,994
<b>Total Other Income</b>	<u>256,145</u>	<u>212,751</u>	<u>501,994</u>
<b>Income (Loss) Before Provision for Taxes</b>	<u>1,014,905</u>	<u>77,258</u>	<u>(522,654)</u>
<b>Provision for Taxes</b>	<u>185,023</u>	<u>345,711</u>	<u>84,669</u>
<b>Net Income (Loss)</b>	<u>829,882</u>	<u>(268,453)</u>	<u>(607,323)</u>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>103,598</u>	<u>(24,869)</u>	<u>87,651</u>
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	<u>99,959</u>	<u>7,953</u>	<u>343,498</u>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<u>407,727</u>	<u>(83,234)</u>	<u>(668,444)</u>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<u>\$ 218,598</u>	<u>\$ (168,303)</u>	<u>\$ (370,028)</u>
<b>Distributions Declared per Common Unit</b>	<u>\$ 0.52</u>	<u>\$ 0.62</u>	<u>\$ 0.60</u>
<b>Net Income (Loss) Per Common Unit</b>			
Common Units, Basic and Diluted	<u>\$ 0.41</u>	<u>\$ (0.35)</u>	<u>\$ (1.02)</u>
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	<u>533,703,606</u>	<u>475,582,718</u>	<u>364,021,369</u>
Common Units, Diluted	<u>538,669,070</u>	<u>475,582,718</u>	<u>364,021,369</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees	<u>\$ 254,729</u>	<u>\$ 317,675</u>	<u>\$ 189,006</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in Thousands)**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net Income (Loss)	\$829,882	\$(268,453)	\$(607,323)
Other Comprehensive Income (Loss), Net of Tax—Currency Translation Adjustment	1,859	7,056	(13,613)
Comprehensive Income (Loss)	831,741	(261,397)	(620,936)
Less:			
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	103,598	(24,869)	87,651
Comprehensive Income in Non-Controlling Interests in Consolidated Entities	101,606	17,353	328,003
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	407,727	(83,234)	(668,444)
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	<u>\$218,810</u>	<u>\$(170,647)</u>	<u>\$(368,146)</u>

See notes to consolidated financial statements.



**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appro- priated Partners' Capital	Accumulated Other Compre- hensive Income				
<b>Balance at December 31, 2009</b>	319,939,772	\$3,376,707	\$ —	\$ 2,420	\$ 540,283	\$ 2,097,812	\$6,017,222	\$ 526,311
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	406,858	—	58	—	406,916	—
Net Income (Loss)	—	(370,028)	—	—	343,498	(668,444)	(694,974)	87,651
Allocation of Income of Consolidated CLO Entities	—	—	79,220	—	(79,220)	—	—	—
Currency Translation Adjustment	—	—	—	1,882	(15,495)	—	(13,613)	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	(15,495)	—	15,495	—	—	—
Reclassification of Capital Due to Non-Controlling Interest Holders	—	—	—	—	(73,862)	—	(73,862)	—
Capital Contributions	—	—	—	—	140,741	—	140,741	154,648
Capital Distributions	—	(210,395)	—	—	(37,147)	(388,994)	(636,536)	(104,823)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(21,997)	21,997	—	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(573)	—	—	—	—	(573)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	67,893	—	—	—	—	67,893	—
Equity-Based Compensation	—	769,818	—	—	—	1,588,926	2,358,744	—
Relinquished with Deconsolidation of Partnership	—	—	—	—	—	—	—	(4,397)
Net Delivery of Vested Common Units	6,929,888	(23,943)	—	—	—	—	(23,943)	—
Repurchase of Common Units and Blackstone Holdings Partnership Units	(84,888)	(1,198)	—	—	—	(13)	(1,211)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(19,346)	—	—	—	19,346	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	85,608,055	252,113	—	—	—	(252,113)	—	—
Issuance of Common Units to Pátria	3,699,195	47,163	—	—	—	—	47,163	—
<b>Balance at December 31, 2010</b>	416,092,022	\$3,888,211	\$ 470,583	\$ 4,302	\$ 812,354	\$ 2,418,517	\$7,593,967	\$ 659,390

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
(Dollars in Thousands, Except Unit Data)

	<u>The Blackstone Group L.P.</u>				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Compre- hensive Income				
<b>Balance at December 31, 2010</b>	416,092,022	\$3,888,211	\$ 470,583	\$ 4,302	\$ 812,354	\$ 2,418,517	\$7,593,967	\$ 659,390
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	97,660	—	113	—	97,773	—
Net Income (Loss)	—	(168,303)	—	—	7,953	(83,234)	(243,584)	(24,869)
Allocation of Losses of Consolidated CLO Entities	—	—	(190,780)	—	190,780	—	—	—
Currency Translation Adjustment	—	—	—	(2,344)	9,400	—	7,056	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	9,400	—	(9,400)	—	—	—
Capital Contributions	—	—	—	—	279,293	—	279,293	909,425
Capital Distributions	—	(294,169)	—	—	(263,837)	(408,663)	(966,669)	(344,450)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	2,614	(2,614)	—	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(466)	—	—	—	(1,652)	(2,118)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	58,391	—	—	—	—	58,391	—
Equity-Based Compensation	—	565,438	—	—	—	761,464	1,326,902	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	1	—	—	—	1	(107,663)
Net Delivery of Vested Common Units	8,105,566	(34,590)	—	—	—	—	(34,590)	—
Repurchase of Common Units and Blackstone Holdings Partnership Units	—	—	—	—	—	(469)	(469)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(5,893)	—	—	—	5,893	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	62,055,376	228,722	—	—	—	(228,722)	—	—
Issuance of New Units	3,177,943	44,500	—	—	—	—	44,500	—
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833

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See notes to consolidated financial statements.

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	The Blackstone Group L.P.				Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income				
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	233,386	—	155	—	233,541	—
Consolidation of Certain Funds	—	—	—	—	—	—	—	50,224
Net Income	—	218,598	—	—	99,959	407,727	726,284	103,598
Allocation of Losses of Consolidated CLO Entities	—	—	(112,869)	—	112,869	—	—	—
Currency Translation Adjustment	—	—	—	212	1,647	—	1,859	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	1,647	—	(1,647)	—	—	—
Capital Contributions	—	—	—	—	322,562	34	322,596	462,261
Capital Distributions	—	(271,890)	—	—	(116,672)	(342,640)	(731,202)	(151,713)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(4,584)	(17,392)	(21,976)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(63)	—	—	—	—	(63)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	57,356	—	—	—	—	57,356	—
Equity-Based Compensation	—	437,444	—	—	—	494,834	932,278	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	—	—	—	—	—	(18)
Net Delivery of Vested Common Units	8,748,146	(21,453)	—	—	—	(911)	(22,364)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,423)	—	—	—	2,423	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	58,175,334	256,239	—	—	—	(256,239)	—	—
<b>Balance at December 31, 2012</b>	<u>556,354,387</u>	<u>\$4,955,649</u>	<u>\$ 509,028</u>	<u>\$ 2,170</u>	<u>\$ 1,443,559</u>	<u>\$ 2,748,356</u>	<u>\$9,658,762</u>	<u>\$ 1,556,185</u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2012	2011	2010
<b>Operating Activities</b>			
Net Income (Loss)	\$ 829,882	\$ (268,453)	\$ (607,323)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Blackstone Funds Related:			
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(397,470)	59,973	(720,716)
Net Realized Gains on Investments	(710,755)	(540,353)	(337,932)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(181,481)	(116,183)	(460,450)
Unrealized Depreciation (Appreciation) on Hedge Activities	22,599	(1,283)	(1,952)
Non-Cash Performance Fees	(699,711)	(714,830)	(379,156)
Non-Cash Performance Fee Compensation	513,546	316,713	356,962
Equity-Based Compensation Expense	949,633	1,396,062	2,440,148
Amortization of Intangibles	139,174	207,591	162,051
Other Non-Cash Amounts Included in Net Income (Loss)	353,052	164,359	20,591
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Cash Held by Blackstone Funds and Other	(367,101)	545,637	(447,084)
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(48,284)	(110,607)	(4,398)
Accounts Receivable	(60,520)	116,714	(108,162)
Reverse Repurchase Agreements	(108,533)	41,940	(181,425)
Due from Affiliates	(73,485)	(31,403)	(68,761)
Other Assets	51,031	(19,233)	(20,802)
Accrued Compensation and Benefits	(119,862)	(273,281)	(101,377)
Securities Sold, Not Yet Purchased	88,474	22,407	114,683
Accounts Payable, Accrued Expenses and Other Liabilities	(408,256)	(203,419)	12,535
Repurchase Agreements	40,417	39,177	62,672
Due to Affiliates	(88,425)	(3,439)	3,286
Treasury Cash Management Strategies:			
Investments Purchased	(3,414,291)	(3,198,632)	(2,246,082)
Cash Proceeds from Sale of Investments	2,729,689	3,486,836	1,930,489
Blackstone Funds Related:			
Investments Purchased	(6,845,184)	(6,113,038)	(4,411,114)
Cash Proceeds from Sale or Pay Down of Investments	8,389,016	6,296,358	4,621,432
Net Cash Provided by (Used in) Operating Activities	<u>583,155</u>	<u>1,099,613</u>	<u>(371,885)</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(37,020)	(36,484)	(54,160)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(188,306)	(23,744)	(21,886)
Changes in Restricted Cash	2,345	330	(143)
Net Cash Used in Investing Activities	<u>(222,981)</u>	<u>(59,898)</u>	<u>(76,189)</u>
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(261,582)	(608,287)	(113,872)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	773,714	1,183,952	262,006

continued...

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2012	2011	2010
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (63)	\$ (466)	\$ (573)
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(22,364)	(36,711)	(25,154)
Proceeds from Loans Payable	633,742	13,301	415,828
Repayment and Repurchase of Loans Payable	(33,168)	(27,424)	(43,266)
Distributions to Unitholders	(614,530)	(702,832)	(599,390)
Blackstone Funds Related:			
Proceeds from Loans Payable	17,820	342,133	392,071
Repayment of Loans Payable	(898,980)	(1,037,181)	(203,026)
Net Cash Provided by (Used in) Financing Activities	(405,411)	(873,515)	84,624
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(5)	(77)	(25)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(45,242)</b>	<b>166,123</b>	<b>(363,475)</b>
Cash and Cash Equivalents, Beginning of Period	754,744	588,621	952,096
Cash and Cash Equivalents, End of Period	<u>\$ 709,502</u>	<u>\$ 754,744</u>	<u>\$ 588,621</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	<u>\$ 80,159</u>	<u>\$ 81,407</u>	<u>\$ 3,554</u>
Payments for Income Taxes	<u>\$ 30,234</u>	<u>\$ 43,945</u>	<u>\$ 57,672</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	<u>\$ 6,803</u>	<u>\$ —</u>	<u>\$ —</u>
Non-Cash Distributions to Non-Controlling Interest Holders	<u>\$ (6,803)</u>	<u>\$ —</u>	<u>\$ —</u>
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	<u>\$ (5,409)</u>	<u>\$ (2,775)</u>	<u>\$ 16,670</u>
Net Assets Related to the Consolidation of CLO Vehicles	<u>\$ 233,541</u>	<u>\$ 97,773</u>	<u>\$ 406,916</u>
Net Assets Related to the Consolidation of Certain Fund Entities	<u>\$ 50,224</u>	<u>\$ —</u>	<u>\$ —</u>
Reclassification of Capital Due to Non-Controlling Interest Holders	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (73,862)</u>
In-kind Redemption of Capital	<u>\$ (2,017)</u>	<u>\$ (52,467)</u>	<u>\$ (28,098)</u>
In-kind Contribution of Capital	<u>\$ 2,017</u>	<u>\$ 8,705</u>	<u>\$ 54,289</u>
Notes Issuance Costs	<u>\$ 4,788</u>	<u>\$ —</u>	<u>\$ 2,000</u>
Transfer of Interests to Non-Controlling Interest Holders	<u>\$ (4,584)</u>	<u>\$ 2,614</u>	<u>\$ (21,996)</u>
Change in The Blackstone Group L.P.'s Ownership Interest	<u>\$ (2,423)</u>	<u>\$ (5,893)</u>	<u>\$ (19,346)</u>
Net Settlement of Vested Common Units	<u>\$ 167,046</u>	<u>\$ 186,644</u>	<u>\$ 198,739</u>
Conversion of Blackstone Holdings Units to Common Units	<u>\$ 256,239</u>	<u>\$ 228,722</u>	<u>\$ 252,113</u>
Acquisition of Ownership Interests from Non-Controlling Interest Holders:			
Deferred Tax Asset	<u>\$(204,320)</u>	<u>\$ (300,471)</u>	<u>\$(351,183)</u>
Due to Affiliates	<u>\$ 146,964</u>	<u>\$ 242,080</u>	<u>\$ 283,290</u>
Partners' Capital	<u>\$ 57,356</u>	<u>\$ 58,391</u>	<u>\$ 67,893</u>
Issuance of New Units	<u>\$ —</u>	<u>\$ 44,500</u>	<u>\$ 47,163</u>

See notes to consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries, (“Blackstone” or the “Partnership”) is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, separately managed accounts, and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Blackstone’s business is organized into five segments: private equity, real estate, hedge fund solutions, credit and financial advisory.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly-owned and controlled by one of Blackstone’s founders, Stephen A. Schwarzman (the “Founder”), and Blackstone’s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, “Blackstone Holdings”, “Blackstone Holdings Partnerships” or the “Holding Partnerships”). The Partnership, through its wholly-owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the four Holding Partnerships may, four times each year, exchange their limited partnership interests (“Partnership Units”) for Blackstone Common Units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone Common Unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of the Partnership, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Consolidated Statements of Cash Flows.

The December 31, 2011 Consolidated Statement of Financial Condition reflects an increase of \$506.2 million to reflect the cumulative effect of a reclassification to Redeemable Non-Controlling Interests in Consolidated Entities. This amount had previously been classified within Non-Controlling Interests in Consolidated Entities but should properly be, and now has been, classified within Redeemable Non-Controlling Interests in Consolidated Entities. In addition, the Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 reflect increases to Net Income (Loss) Attributable to Redeemable Non-Controlling

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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Interests in Consolidated Entities of \$7.7 million and \$2.8 million, respectively, with corresponding decreases to Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities to correctly classify the portion of Net Gains (Losses) from Fund Investment Activities attributable to Redeemable Non-Controlling Interests in Consolidated Entities. These immaterial restatements had no impact on Net Income (Loss) Attributable to The Blackstone Group L.P., Net Income (Loss) per Common Unit—Basic or Diluted, or the Consolidated Statements of Cash Flows.

A reclassification was made to prior year amounts to conform to the current year presentation. As of June 30, 2012, Blackstone elected to separately present Carried Interest and Incentive Fees in each of the Realized and Unrealized components of Performance Fee Revenue and Performance Fee Compensation in the Consolidated Statements of Operations. Previously, these amounts were not separately reported. This presentation had no impact on the respective financial statement captions.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable and that it has made all necessary adjustments (consisting of only normal recurring items) so that the consolidated financial statements are presented fairly. Actual results could differ from those estimates and such differences could be material.

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings. Income (Loss) attributable to Blackstone Holdings, excluding certain costs and expenses borne directly by Blackstone Holdings, is calculated based on the year to date average percentage of Blackstone Holdings partnership units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

In addition, the Partnership consolidates all variable interest entities (“VIE”) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- (a) The entity has all of the attributes of an investment company as defined under American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (“Investment

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- Company Guide”), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
  - (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continuously. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Consolidated Statements of Financial Condition.

Blackstone’s other disclosures regarding VIEs are discussed in Note 9. “Variable Interest Entities”.

**Business Combinations**

The Partnership accounts for business combinations using the acquisition method of accounting. On the acquisition date, the Partnership recognizes identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date fair values. Transaction costs are expensed as incurred.

**Revenue Recognition**

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

*Management and Advisory Fees* —Management and Advisory Fees are comprised of management fees, including base management fees, transaction and other fees, management fee reductions and offsets, and advisory fees.



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The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital, invested capital or, in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (“management fee reductions”) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Consolidated Statements of Financial Condition.

*Performance Fees* — Performance Fees earned on the performance of Blackstone’s hedge fund structures (“Incentive Fees”) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund’s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone’s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest

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recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the terms of the fund.

*Investment Income (Loss)*—Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions, from its non-consolidated funds. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue*—Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue*—Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

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

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

- Level I—Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

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- Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III—Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, corporate bonds and loans held within CLO vehicles, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles generally are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

*Level II Valuation Techniques*

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

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- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques—Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

*Level III Valuation Techniques*

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

*Private Equity Investments*—The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Private equity investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

*Real Estate Investments*—The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's fair value.

*Funds of Hedge Funds*—Blackstone Funds' direct investments in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. If the Partnership determines, based on its own due diligence and investment procedures, that NAV per share does not represent fair value, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

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Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side-pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side-pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side-pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the observability of pricing inputs as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. "Net Asset Value as Fair Value".

*Credit-Focused Investments* —The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* —Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee as well as the senior heads of each of Blackstone's businesses. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains from Fund Investment Activities in the Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers as described in Note 3. "Acquisitions, Goodwill and Intangible Assets." The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force ("EITF"). Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate, and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. "Fair Value Option" to the Consolidated Financial Statements.

Security and loan transactions are recorded on a trade date basis.

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**Equity Method Investments**

Investments where the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments represents fair value.

**Cash and Cash Equivalents**

Cash and cash equivalents represents cash on hand, cash held in banks and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

**Cash Held By Blackstone Funds and Other**

Cash held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, receivables relating to unsettled sale transactions and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 4 to 20 years, reflecting the contractual lives of such funds. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO and the acquisition of GSO in 2008. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that an operating segment's fair value is less than its carrying value, a two-step quantitative

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assessment is performed to (a) calculate the fair value of the operating segment and comparing it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss. Prior to 2012, the Partnership performed the two-step quantitative analysis.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

**Comprehensive Income**

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds and side-by-side entities held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P. Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of



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funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

**Non-Controlling Interests in Blackstone Holdings**

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

**Compensation and Benefits**

*Compensation and Benefits—Compensation* —Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

*Compensation and Benefits—Performance Fee* —Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

**Other Income**

Net Gains (Losses) from Fund Investment Activities on the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds' investments.

Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

In 2011, Other Income included the amount attributable to the Reversal of the Tax Receivable Agreement Liability. This is income attributable to a change in tax rate as discussed in Note 13. "Income Taxes".

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**Income Taxes**

The Blackstone Holdings partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of the Partnership and the Blackstone Holdings partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Position.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

**Net Income (Loss) Per Common Unit**

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to The Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements"), comprising primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest.

The Partnership manages credit exposure arising from repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

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The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments on the Consolidated Statements of Financial Condition.

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to “cover” its short sale in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (“fair value hedge”), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (“freestanding derivative”). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership’s evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The fair value of the derivative instrument is reflected within Other Assets in the Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss), in the Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone’s other disclosures regarding derivative financial instruments are discussed in Note 6. “Derivative Financial Instruments”.

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**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the consolidated financial statements when paid.

**Recent Accounting Developments**

In April 2011, the FASB amended existing guidance for agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments removed from the assessment of effective control (a) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (b) the collateral maintenance implementation guidance related to that criterion. The guidance was effective for the first interim or annual period beginning on or after December 15, 2011. Blackstone enters into repurchase agreements that are currently accounted for as collateralized financing transactions. Adoption did not have a material impact on the Partnership's financial statements.

In May 2011, the FASB issued amended guidance on fair value measurements to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. The amended guidance specified that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments included requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements was provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarified that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity's holding (for example, a blockage factor) rather than as a characteristic of the asset or liability (for example, a control premium) is not permitted in a fair value measurement.

The guidance also required enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amended disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

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The amended guidance was effective for interim and annual periods beginning after December 15, 2011. As the impact of the guidance is primarily limited to enhanced disclosures, adoption did not have a material impact on the Partnership's financial statements.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provided an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity was required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In addition, an entity was required to present on the face of the financial statements reclassification adjustments for items that were reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income were presented. The guidance was effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and was to be applied on a retrospective basis. Adoption did not have a material impact on the Partnership's financial statements.

In December 2011, the FASB issued a deferral of the effective date for certain disclosures relating to the comprehensive income, specifically with respect to the presentation of reclassifications of items out of accumulated other comprehensive income. The deferral was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In January 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance does not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

The guidance is effective prospectively for periods beginning after December 15, 2012. As the amendments are limited to presentation and disclosure, adoption is not expected to have a material impact on the Partnership's financial statements.

In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has

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the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit's fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Blackstone adopted the guidance on October 1, 2012, the date of annual impairment testing. The amended guidance did not have a material impact on the Partnership's financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments are limited to disclosure only, adoption is not expected to have a material impact on the Partnership's financial statements.

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarify that the scope of guidance issued in December 2011 to enhance disclosures around financial instrument and derivative instruments that are either (a) offset, or (b) subject to a master netting agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for interim and annual periods beginning on or after January 1, 2013. Adoption is not expected to have a material impact on the Partnership's financial statements.

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**3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS**

**Acquisition of Harbourmaster**

On January 5, 2012, Blackstone completed the acquisition of all of the outstanding share capital of Harbourmaster Capital (Holdings) Limited (“Harbourmaster”), an Island of Jersey entity, in accordance with the sale and purchase agreement entered into on October 6, 2011. The fair value of consideration transferred, comprised entirely of cash, was €181.4 million (\$232.0 million). Harbourmaster is a European secured bank loan manager based in Dublin, Ireland. Harbourmaster manages various credit products including CLO vehicles.

The following is a summary of the estimated fair values of assets acquired and liabilities assumed for the Harbourmaster acquisition:

Purchase Price—Cash	<u>\$ 232,044</u>
Fair Value of Assets Acquired and Liabilities Assumed	
Assets	
Cash	\$ 75,072
Investments in CLOs	9,305
Accounts Receivable	9,329
Other Assets	17,651
Intangible Assets	<u>142,221</u>
	<u>253,578</u>
Liabilities Assumed	
Accounts Payable, Accrued Expenses and Other Liabilities	<u>21,534</u>
Net Assets Acquired	<u>\$ 232,044</u>

Harbourmaster’s results from the date of acquisition have been included in the Credit segment.

The Partnership incurred \$2.1 million of acquisition-related costs which were expensed as incurred and are reflected within the General, Administrative and Other in the Consolidated Statements of Operations.

The Consolidated Statement of Operations for the year ended December 31, 2012 includes the results of Harbourmaster since the date of acquisition, January 5, 2012, through December 31, 2012. Supplemental information on an unaudited pro forma basis, as if the Harbourmaster acquisition had been consummated as of January 1, 2011 is as follows:

	<b>Year Ended December 31, 2011 (Unaudited)</b>
Total Revenues	<u>\$ 3,253,302</u>
Net Loss Attributable to The Blackstone Group L.P.	<u>\$ (270,796)</u>
Net Loss Per Common Unit—Basic and Diluted	<u>\$ (0.57)</u>

The results for the period from January 1, 2012 to the acquisition date of January 5, 2012 are not material and, as a result, pro forma unaudited supplemental information has not been provided for the 2012 periods as the amounts are materially consistent with the amounts recognized in the Consolidated Statements of Operations for the year ended December 31, 2012.

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The unaudited pro forma supplemental information is based on estimates and assumptions, which the Partnership believes are reasonable. These results are not necessarily indicative of the Partnership's Consolidated Financial Condition or Statements of Operations in future periods or the results that actually would have been realized had the Partnership and Harbourmaster been a combined entity during the periods presented.

**Goodwill and Intangible Assets**

Goodwill has been allocated to each of the Partnership's five segments as follows: Private Equity (\$694.5 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), Credit (\$346.4 million) and Financial Advisory (\$68.9 million).

The carrying value of goodwill was \$1.7 billion as of December 31, 2012 and December 31, 2011. As of December 31, 2012, the Partnership evaluated that it was not more likely than not that the fair value of its operating segments was less than their respective carrying values. As of December 31, 2011, the fair value of the Partnership's operating segments substantially exceeded their respective carrying values.

Intangible Assets, Net consists of the following:

	December 31,	
	2012	2011
Finite-Lived Intangible Assets / Contractual Rights	\$1,536,244	\$1,394,023
Accumulated Amortization	(937,709)	(798,535)
Intangible Assets, Net	<u>\$ 598,535</u>	<u>\$ 595,488</u>

Changes in the Partnership's Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2012	2011	2010
Balance, Beginning of Year	\$ 595,488	\$ 779,311	\$ 919,477
Amortization Expense	(139,174)	(207,591)	(162,051)
Acquisitions	142,221	23,768	21,885
Balance, End of Year	<u>\$ 598,535</u>	<u>\$ 595,488</u>	<u>\$ 779,311</u>

Amortization of Intangible Assets held at December 31, 2012 is expected to be \$88.3 million, \$83.4 million, \$77.1 million, \$72.8 million, and \$46.4 million for each of the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively. Blackstone's intangible assets as of December 31, 2012 are expected to amortize over a weighted-average period of 8.6 years.



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**4. INVESTMENTS**

Investments consist of the following:

	December 31, 2012	December 31, 2011
Investments of Consolidated Blackstone Funds	\$14,026,745	\$10,306,795
Equity Method Investments	2,582,504	2,218,103
Blackstone's Treasury Cash Management Strategies	1,411,680	685,859
Performance Fees	2,780,217	1,889,152
Other Investments	46,124	28,390
	<u>\$20,847,270</u>	<u>\$15,128,299</u>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$500.5 million and \$449.6 million at December 31, 2012 and December 31, 2011, respectively.

At December 31, 2012 and December 31, 2011, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone's net assets. At December 31, 2012 and December 31, 2011, no investment exceeded the 5% threshold.

**Investments of Consolidated Blackstone Funds**

The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Year Ended December 31,		
	2012	2011	2010
Realized Gains (Losses)	\$ (3,502)	\$ 226,427	\$ (51,158)
Net Change in Unrealized Gains (Losses)	58,602	(308,364)	453,692
	<u>\$55,100</u>	<u>\$ (81,937)</u>	<u>\$402,534</u>

The following reconciles the Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds presented above to Other Income (Loss)—Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2012	2011	2010
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	\$ 55,100	\$(81,937)	\$402,534
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	201,045	96,872	99,460
Other Income—Net Gains from Fund Investment Activities	<u>\$256,145</u>	<u>\$ 14,935</u>	<u>\$501,994</u>

**Equity Method Investments**

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

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Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended December 31, 2012, 2011 and 2010, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”) and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$199.7 million, \$135.7 million and \$468.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The summarized financial information of the Partnership’s equity method investments for December 31, 2012 are as follows:

	December 31, 2012 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$31,308,915	\$40,230,098	\$8,193,041	\$11,066,214	\$ 22,345	\$90,820,613
Other Assets	1,289,961	1,714,990	1,173,627	2,516,388	46,178	6,741,144
Total Assets	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
<b>Liabilities and Partners’ Capital</b>						
Debt	\$ 1,478,929	\$ 1,336,305	\$ 65,103	\$ 1,043,595	\$ 972	\$ 3,924,904
Other Liabilities	91,519	703,412	642,925	1,401,910	20,192	2,859,958
Total Liabilities	1,570,448	2,039,717	708,028	2,445,505	21,164	6,784,862
Partners’ Capital	31,028,428	39,905,371	8,658,640	11,137,097	47,359	90,776,895
Total Liabilities and Partners’ Capital	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
<b>Statement of Income</b>						
Interest Income	\$ 350,153	\$ 128,624	\$ 194	\$ 712,490	\$ —	\$ 1,191,461
Other Income	13,255	294,105	36,797	7,283	76,809	428,249
Interest Expense	(23,060)	(39,103)	(1,024)	(60,082)	—	(123,269)
Other Expenses	(48,926)	(64,569)	(60,114)	(101,451)	(48,744)	(323,804)
Net Realized and Unrealized Gain from Investments	3,916,697	4,979,027	798,892	1,362,351	1,014	11,057,981
Net Income	<u>\$ 4,208,119</u>	<u>\$ 5,298,084</u>	<u>\$ 774,745</u>	<u>\$ 1,920,591</u>	<u>\$ 29,079</u>	<u>\$12,230,618</u>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone’s segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2011 are as follows:

	December 31, 2011 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$25,788,678	\$29,856,855	\$6,322,821	\$ 8,887,081	\$ 5,018	\$70,860,453
Other Assets	321,271	1,736,245	1,167,162	2,355,318	51,153	5,631,149
Total Assets	<u>\$26,109,949</u>	<u>\$31,593,100</u>	<u>\$7,489,983</u>	<u>\$11,242,399</u>	<u>\$ 56,171</u>	<u>\$76,491,602</u>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 863,672	\$ 1,384,867	\$ 123,925	\$ 444,313	\$ 979	\$ 2,817,756
Other Liabilities	194,873	334,175	461,854	848,534	25,740	1,865,176
Total Liabilities	<u>1,058,545</u>	<u>1,719,042</u>	<u>585,779</u>	<u>1,292,847</u>	<u>26,719</u>	<u>4,682,932</u>
Partners' Capital	<u>25,051,404</u>	<u>29,874,058</u>	<u>6,904,204</u>	<u>9,949,552</u>	<u>29,452</u>	<u>71,808,670</u>
Total Liabilities and Partners' Capital	<u>\$26,109,949</u>	<u>\$31,593,100</u>	<u>\$7,489,983</u>	<u>\$11,242,399</u>	<u>\$ 56,171</u>	<u>\$76,491,602</u>
<b>Statement of Income</b>						
Interest Income	\$ 116	\$ 82,166	\$ 89	\$ 581,090	\$ 2	\$ 663,463
Other Income	516,729	159,400	19,275	26,760	66,456	788,620
Interest Expense	(14,826)	(19,142)	(172)	(24,672)	—	(58,812)
Other Expenses	(50,591)	(54,907)	(51,063)	(78,427)	(25,040)	(260,028)
Net Realized and Unrealized Gain (Loss) from Investments	<u>1,510,622</u>	<u>4,086,549</u>	<u>(71,790)</u>	<u>380,609</u>	<u>—</u>	<u>5,905,990</u>
Net Income (Loss)	<u>\$ 1,962,050</u>	<u>\$ 4,254,066</u>	<u>\$ (103,661)</u>	<u>\$ 885,360</u>	<u>\$ 41,418</u>	<u>\$ 7,039,233</u>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

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The summarized financial information of the Partnership's equity method investments for December 31, 2010 are as follows:

	December 31, 2010 and the Year Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$23,494,720	\$20,695,822	\$6,041,012	\$8,369,228	\$ 3,914	\$58,604,696
Other Assets	140,862	1,035,183	1,085,175	1,088,159	24,173	3,373,552
<b>Total Assets</b>	<b><u>\$23,635,582</u></b>	<b><u>\$21,731,005</u></b>	<b><u>\$7,126,187</u></b>	<b><u>\$9,457,387</u></b>	<b><u>\$ 28,087</u></b>	<b><u>\$61,978,248</u></b>
<b>Liabilities and Partners' Capital</b>						
Debt	\$ 392,786	\$ 582,278	\$ 33,000	\$1,152,253	\$ 978	\$ 2,161,295
Other Liabilities	103,471	221,449	909,513	360,510	20,505	1,615,448
<b>Total Liabilities</b>	<b><u>496,257</u></b>	<b><u>803,727</u></b>	<b><u>942,513</u></b>	<b><u>1,512,763</u></b>	<b><u>21,483</u></b>	<b><u>3,776,743</u></b>
Partners' Capital	23,139,325	20,927,278	6,183,674	7,944,624	6,604	58,201,505
<b>Total Liabilities and Partners' Capital</b>	<b><u>\$23,635,582</u></b>	<b><u>\$21,731,005</u></b>	<b><u>\$7,126,187</u></b>	<b><u>\$9,457,387</u></b>	<b><u>\$ 28,087</u></b>	<b><u>\$61,978,248</u></b>
<b>Statement of Income</b>						
Interest Income	\$ 76	\$ 35,312	\$ 274	\$ 485,648	\$ 3	\$ 521,313
Other Income	202,872	118,512	33,885	129,894	65,523	550,686
Interest Expense	(8,642)	(7,257)	(6,418)	(90,077)	—	(112,394)
Other Expenses	(42,565)	(73,353)	(43,226)	(69,265)	(38,953)	(267,362)
Net Realized and Unrealized Gain from Investments	5,182,506	8,630,374	661,045	1,041,801	—	15,515,726
<b>Net Income</b>	<b><u>\$ 5,334,247</u></b>	<b><u>\$ 8,703,588</u></b>	<b><u>\$ 645,560</u></b>	<b><u>\$1,498,001</u></b>	<b><u>\$ 26,573</u></b>	<b><u>\$16,207,969</u></b>

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

**Blackstone's Treasury Cash Management Strategies**

The portion of Blackstone's Treasury cash management strategies included in Investments represents the Partnership's liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third-party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone's Treasury cash management strategies:

	Year Ended December 31,		
	2012	2011	2010
Realized Gains (Losses)	\$9,095	\$ 9,738	\$ 7,497
Net Change in Unrealized Gains (Losses)	(502)	641	4,185
	<b><u>\$8,593</u></b>	<b><u>\$10,379</u></b>	<b><u>\$11,682</u></b>

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**Performance Fees**

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2011	\$ 620,359	\$ 943,859	\$ 1,858	\$ 323,076	\$1,889,152
Performance Fees Allocated as a Result of Changes in Fund					
Fair Values	264,407	863,277	30,308	310,650	1,468,642
Foreign Exchange Gain	—	2,288	—	—	2,288
Fund Distributions	(104,292)	(176,145)	(25,952)	(273,476)	(579,865)
Performance Fees, December 31, 2012	<u>\$ 780,474</u>	<u>\$1,633,279</u>	<u>\$ 6,214</u>	<u>\$ 360,250</u>	<u>\$2,780,217</u>

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Year Ended December 31,		
	2012	2011	2010
Realized Gains	\$ 743	\$ 948	\$ 977
Net Change in Unrealized Gains (Losses)	(371)	(21,968)	2,429
	<u>\$ 372</u>	<u>\$(21,020)</u>	<u>\$3,406</u>

**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2012 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
			Diversified Instruments	\$145,540
Credit Driven	192,794	1,980	(b)	(b)
Event Driven	95,824	—	(c)	(c)
Equity	456,819	—	(d)	(d)
Commodities	50,977	—	(e)	(e)
	<u>\$941,954</u>	<u>\$ 9,519</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 61% of the total value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 39% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction may lapse cannot be estimated. As of the reporting date, the investee fund manager had elected to side-pocket 25% of Blackstone's investments in this category.

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- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 77% of the total value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 10% of the total value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket any of Blackstone's investments in this category. The remaining 13% of investments within this category are redeemable as of the reporting date.
- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 66% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 17% of the total value of investments in this category are subject to lock-up restrictions. Investments representing 16% of the total value of investments in this category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments or gate such investments, whereby limiting the amount of withdrawals from the fund during a redemption period. As of the reporting date, the investee fund manager had elected to side-pocket 2% of Blackstone's investments in this category. Investments representing 1% of the total value of investments are in hedge funds that are in the process of liquidating.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Investments in this category may not be redeemed at, or within three months of, the reporting date.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Fair Value Hedges**

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were previously used to hedge a portion of the interest rate risk on the Partnership's fixed rate borrowings. The impact to the Consolidated Statements of Operations for the period up through the date of de-designation is reflected within "Fair Value Hedges" in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts

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are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	December 31, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Fair Value Hedges</b>								
Interest Rate Swaps	\$ —	\$ —	\$ —	\$ —	\$450,000	\$67,668	\$ —	\$ —
<b>Freestanding Derivatives</b>								
Blackstone—Other								
Interest Rate Contracts	689,300	55,270	636,555	4,116	221,350	768	502,200	1,291
Foreign Currency Contracts	16,771	74	7,025	81	22,698	1,016	7,293	103
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	435,229	37,898	301,551	17,101	177,453	22,016	159,409	7,687
Interest Rate Contracts	165,517	6,132	90,500	772	95,482	7,270	191,400	10,867
Freestanding Derivatives	1,306,817	99,374	1,035,631	22,070	516,983	31,070	860,302	19,948
Total	<u>\$1,306,817</u>	<u>\$99,374</u>	<u>\$1,035,631</u>	<u>\$22,070</u>	<u>\$966,983</u>	<u>\$98,738</u>	<u>\$860,302</u>	<u>\$19,948</u>

The table below summarizes the impact to the Consolidated Statements of Operations from derivative financial instruments:

	Year Ended December 31,		
	2012	2011	2010
<b>Fair Value Hedges—Interest Rate Swaps</b>			
Hedge Ineffectiveness	\$ 548	\$ 4,649	\$ 3,400
Excluded from Assessment of Effectiveness	\$ (938)	\$ (3,465)	\$ (1,100)
Realized Gain	<u>\$22,941</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$ (2,752)	\$ (8,634)	\$ (2,806)
Foreign Currency Contracts	(3,816)	1,739	(529)
Credit Default Swaps	(1)	(111)	—
Other	—	(153)	(64)
Total	<u>\$ (6,569)</u>	<u>\$ (7,159)</u>	<u>\$ (3,399)</u>
Net Change in Unrealized Gain (Loss)			
Interest Rate Contracts	\$12,134	\$ 8,718	\$ 43
Foreign Currency Contracts	(5,523)	(33,408)	639
Other	—	(7)	(1)
Total	<u>\$ 6,611</u>	<u>\$ (24,697)</u>	<u>\$ 681</u>

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Since the inception of the above mentioned hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment will be accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2012, 2011 and 2010, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

**7. FAIR VALUE OPTION**

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

	As of December 31,	
	2012	2011
<b>Assets</b>		
Loans and Receivables	\$ 30,663	\$ 8,555
Equity and Preferred Securities	16,147	—
Assets of Consolidated CLO Vehicles		
Corporate Loans	11,053,513	7,901,020
Corporate Bonds	162,456	153,653
Other	18,285	77,295
	<u>\$11,281,064</u>	<u>\$8,140,523</u>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$10,695,136	\$7,449,766
Subordinated Notes	846,471	630,236
	<u>\$11,541,607</u>	<u>\$8,080,002</u>



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

	Year Ended December 31,					
	2012		2011		2010	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ (308)	\$ (375)	\$ —	\$ (228)	\$ 5,695	\$ (101)
Debt Securities	—	—	—	—	(16)	—
Equity and Preferred Securities	(353)	500	—	—	(350)	—
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans	(35,428)	554,628	76,314	(396,946)	(17,736)	272,526
Corporate Bonds	393	13,264	1,099	(7,605)	1,073	5,718
Other	2,425	11,889	13,296	29,908	702	(1,314)
	<u>\$ (33,271)</u>	<u>\$ 579,906</u>	<u>\$ 90,709</u>	<u>\$ (374,871)</u>	<u>\$ (10,632)</u>	<u>\$ 276,829</u>
<b>Liabilities</b>						
<b>Liabilities of Consolidated CLO Vehicles</b>						
Senior Secured Notes	\$ 17	\$ (603,250)	\$ 5,798	\$ 58,067	\$ (6,079)	\$ (33,194)
Subordinated Notes	—	(69,141)	4,694	44,061	—	(152,333)
	<u>\$ 17</u>	<u>\$ (672,391)</u>	<u>\$ 10,492</u>	<u>\$ 102,128</u>	<u>\$ (6,079)</u>	<u>\$ (185,527)</u>

The following table presents information for those financial instruments for which the fair value option was elected:

	As of December 31, 2012			As of December 31, 2011		
	Excess (Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)		Excess (Deficiency) of Fair Value Over Principal	For Financial Assets Past Due (a)	
		Fair Value	Excess (Deficiency) of Fair Value Over Principal		Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (292)	\$ —	\$ —	\$ (162)	\$ —	\$ —
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans	(586,450)	35,322	(73,291)	(674,496)	17,574	(29,384)
Corporate Bonds	(984)	831	(44)	(9,360)	7,560	(2,656)
	<u>\$ (587,726)</u>	<u>\$ 36,153</u>	<u>\$ (73,335)</u>	<u>\$ (684,018)</u>	<u>\$ 25,134</u>	<u>\$ (32,040)</u>

(a) Past due Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2012 and 2011, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status.

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**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy as of December 31, 2012 and 2011, respectively:

	December 31, 2012			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ 1,799	\$ 890,465	\$ 892,264
Equity Securities	95,898	28,654	217,060	341,612
Partnership and LLC Interests	212	12,375	581,151	593,738
Debt Instruments	—	903,123	17,724	920,847
Assets of Consolidated CLO Vehicles				
Corporate Loans	—	9,775,070	1,278,443	11,053,513
Corporate Bonds	—	146,625	15,831	162,456
Freestanding Derivatives—Foreign Currency Contracts	—	37,898	—	37,898
Freestanding Derivatives—Interest Rate Contracts	—	6,132	—	6,132
Other	—	1,260	17,025	18,285
Total Investments of Consolidated Blackstone Funds	96,110	10,912,936	3,017,699	14,026,745
Blackstone's Treasury Cash Management Strategies	672,766	737,708	1,206	1,411,680
Money Market Funds	129,549	—	—	129,549
Freestanding Derivatives				
Interest Rate Contracts	486	54,784	—	55,270
Foreign Currency Contracts	—	74	—	74
Loans and Receivables	—	—	30,663	30,663
Other Investments	12,443	6,783	26,898	46,124
	<u>\$911,354</u>	<u>\$11,712,285</u>	<u>\$ 3,076,466</u>	<u>\$15,700,105</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$10,695,136	\$10,695,136
Subordinated Notes	—	—	846,471	846,471
Freestanding Derivatives—Foreign Currency Contracts	—	17,101	—	17,101
Freestanding Derivatives—Interest Rate Contracts	—	772	—	772
Freestanding Derivatives				
Interest Rate Contracts	277	3,839	—	4,116
Foreign Currency Contracts	—	81	—	81
Securities Sold, Not Yet Purchased	—	226,425	—	226,425
	<u>\$ 277</u>	<u>\$ 248,218</u>	<u>\$11,541,607</u>	<u>\$11,790,102</u>

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	December 31, 2011			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ 5,119	\$ 723,951	\$ 729,070
Equity Securities	113,007	608	232,172	345,787
Partnership and LLC Interests	—	—	492,911	492,911
Debt Instruments	—	594,276	12,783	607,059
Assets of Consolidated CLO Vehicles				
Corporate Loans	—	7,259,204	635,944	7,895,148
Corporate Bonds	—	150,653	3,000	153,653
Freestanding Derivatives—Foreign Currency Contracts	—	22,016	—	22,016
Freestanding Derivatives—Interest Rate Contracts	—	7,270	—	7,270
Other	28,900	21,973	3,008	53,881
Total Investments of Consolidated Blackstone Funds	141,907	8,061,119	2,103,769	10,306,795
Blackstone's Treasury Cash Management Strategies	176,297	509,362	200	685,859
Money Market Funds	257,423	—	—	257,423
Freestanding Derivatives				
Interest Rate Contracts	159	609	—	768
Foreign Currency Contracts	—	1,016	—	1,016
Derivative Instruments Used as Fair Value Hedges	—	67,668	—	67,668
Loans and Receivables	—	—	8,555	8,555
Other Investments	8,066	360	19,964	28,390
	<u>\$583,852</u>	<u>\$8,640,134</u>	<u>\$2,132,488</u>	<u>\$11,356,474</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$7,449,766	\$ 7,449,766
Subordinated Notes	—	—	630,236	630,236
Freestanding Derivatives—Foreign Currency Contracts	—	7,687	—	7,687
Freestanding Derivatives—Interest Rate Contracts	—	10,867	—	10,867
Freestanding Derivatives				
Interest Rate Contracts	1,105	186	—	1,291
Foreign Currency Contracts	—	103	—	103
Securities Sold, Not Yet Purchased	—	143,825	—	143,825
	<u>\$ 1,105</u>	<u>\$ 162,668</u>	<u>\$8,080,002</u>	<u>\$ 8,243,775</u>

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.

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The following table summarizes the fair value transfers between Level I and Level II for positions that exist as of December 31, 2012:

	Year Ended December 31, 2012
Transfers from Level I into Level II (a)	\$ 15,928
Transfers from Level II into Level I (b)	\$ 588

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2012:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 890,465	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	151,899	Discounted Cash Flows	Discount Rate	8.4% - 25.1%	11.2%
			Revenue CAGR	0.7% - 83.4%	5.6%
			Exit Multiple	5.8x - 17.0x	9.2x
	61,479	Transaction Price	N/A	N/A	N/A
	1,602	Market Comparable Companies	Book Value Multiple	0.9x	N/A
			EBITDA Multiple	5.0x - 8.7x	7.8x
	200	Third Party Pricing	N/A	N/A	N/A
	1,880	Other	N/A	N/A	N/A
Partnership and LLC Interests	562,678	Discounted Cash Flows	Discount Rate	5.3% - 22.6%	8.9%
			Revenue CAGR	-8.2% - 62.0%	5.3%
			Exit Multiple	4.5x - 15.4x	10.0x
			Exit Capitalization Rate	1.0% - 10.5%	7.0%
	13,316	Transaction Price	N/A	N/A	N/A
	5,157	Third Party Pricing	N/A	N/A	N/A
Debt Instruments	13,056	Discounted Cash Flows	Discount Rate	7.8% - 42.0%	15.6%
			Revenue CAGR	2.9% - 5.1%	3.8%
			Exit Multiple	9.5x	N/A
			Exit Capitalization Rate	7.0% - 7.5%	7.1%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	4,004	Third Party Pricing	N/A	N/A	N/A
	664	Market Comparable Companies	EBITDA Multiple	6.5x - 7.5x	6.7x
Assets of Consolidated CLO Vehicles	900,146	Third Party Pricing	N/A	N/A	N/A
	278,972	Market Comparable Companies	EBITDA Multiple	2.0x - 13.0x	6.5x
			Liquidity Discount	1.0% - 25.0%	8.4%
	132,171	Discounted Cash Flows	Discount Rate	7.0% - 15.7%	9.3%
	10	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,017,699				

continued ...

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	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 1,006	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	12.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	200	Transaction Price	N/A	N/A	N/A
Loans and Receivables	30,620	Discounted Cash Flows	Discount Rate	11.8% - 25.9%	13.7%
	43	Market Comparable Companies	EBITDA Multiple	8.7x	N/A
Other Investments	17,901	NAV as Fair Value	N/A	N/A	N/A
	5,647	Discounted Cash Flows	Discount Rate	12.5%	N/A
	3,350	Transaction Price	N/A	N/A	N/A
Total	<u>\$ 3,076,466</u>				
<b>Financial Liabilities</b>					
CLOs	<u>\$11,541,607</u>	Discounted Cash Flows	Default Rate	2.0% - 5.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	1.1% - 50.0%	3.9%
			Reinvestment Rate	LIBOR + 400 bps	N/A

CAGR	Compound annual growth rate.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
Exit Multiple	Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.
(a)	Unobservable inputs were weighted based on the fair value of the investments included in the range.
N/A	Not applicable.

The significant unobservable inputs used in the fair value measurement of the assets, Blackstone's Treasury Cash Management Strategies, debt instruments and obligations of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, book value multiples, EBITDA multiples, liquidity discount and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples, book value multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

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Since December 31, 2011, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the current reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains from Fund Investment Activities in the Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value							
	2012				2011			
	Investments of				Investments of			
	Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 2,103,769	\$ 8,555	\$ 20,164	\$2,132,488	\$ 1,602,371	\$ 131,290	\$ 19,672	\$ 1,753,333
Transfer In Due to Consolidation and Acquisition (a)	246,022	—	—	246,022	23,296	—	—	23,296
Transfer Out Due to Deconsolidation	(1,599)	—	—	(1,599)	(5,426)	—	—	(5,426)
Transfer In to Level III (b)	687,225	—	—	687,225	552,656	—	—	552,656
Transfer Out of Level III (b)	(150,097)	—	—	(150,097)	(183,264)	—	—	(183,264)
Purchases	772,305	176,641	7,700	956,646	711,625	191,622	120,200	1,023,447
Sales	(809,367)	(154,293)	(703)	(964,363)	(624,430)	(312,893)	(120,554)	(1,057,877)
Settlements	—	(46)	—	(46)	—	(1,391)	—	(1,391)
Realized Gains (Losses), Net	(17,201)	(308)	449	(17,060)	29,432	—	1,848	31,280
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	186,642	114	494	187,250	(2,491)	(73)	(1,002)	(3,566)
Balance, End of Period	<u>\$ 3,017,699</u>	<u>\$ 30,663</u>	<u>\$ 28,104</u>	<u>\$3,076,466</u>	<u>\$ 2,103,769</u>	<u>\$ 8,555</u>	<u>\$ 20,164</u>	<u>\$ 2,132,488</u>

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	Level III Financial Liabilities at Fair Value Year Ended December 31,					
	2012			2011		
	Collateralized			Collateralized		
	Collateralized	Loan Obligations Subordinated		Collateralized	Loan Obligations Subordinated	
	Loan Obligations Senior Notes	Notes	Total	Loan Obligations Senior Notes	Notes	Total
Balance, Beginning of Period	\$ 7,449,766	\$ 630,236	\$ 8,080,002	\$ 5,877,957	\$ 555,632	\$ 6,433,589
Transfer In Due to Consolidation and Acquisition (a)	3,419,084	149,225	3,568,309	2,455,379	152,736	2,608,115
Transfer Out Due to Deconsolidation	—	—	—	—	(1,921)	(1,921)
Issuances	15,602	2,218	17,820	366,568	42,026	408,594
Settlements	(895,302)	(3,588)	(898,890)	(1,044,325)	(56,467)	(1,100,792)
Realized (Gains) Losses, Net	(17)	—	(17)	5,798	4,694	10,492
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	706,003	68,380	774,383	(211,611)	(66,464)	(278,075)
Balance, End of Period	<u>\$ 10,695,136</u>	<u>\$ 846,471</u>	<u>\$11,541,607</u>	<u>\$ 7,449,766</u>	<u>\$ 630,236</u>	<u>\$ 8,080,002</u>

- (a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the acquisition of management contracts and the Harbourmaster acquisition.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

**9. VARIABLE INTEREST ENTITIES**

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.

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The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	December 31,	
	2012	2011
Investments	\$364,709	\$238,503
Accounts Receivable	1,885	84,867
Due from Affiliates	112,686	9,183
Total VIE Assets	479,280	332,553
Due to Affiliates	2,657	48
Potential Clawback Obligation	36,040	14,876
Maximum Exposure to Loss	<u>\$517,977</u>	<u>\$347,477</u>

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At December 31, 2012, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$247.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$226.4 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$141.9 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

**11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other Assets consists of the following:

	December 31,	
	2012	2011
Furniture, Equipment and Leasehold Improvements	\$ 300,105	\$ 286,170
Less: Accumulated Depreciation	(157,715)	(136,480)
Furniture, Equipment and Leasehold Improvements, Net	142,390	149,690
Prepaid Expenses	81,498	81,701
Other Assets	152,484	106,005
	<u>\$ 376,372</u>	<u>\$ 337,396</u>

Depreciation expense of \$34.0 million, \$31.6 million and \$24.0 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2012, 2011 and 2010, respectively, is included in General, Administrative and Other in the accompanying Consolidated Statements of Operations.



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Accounts Payable, Accrued Expenses and Other Liabilities includes \$170.4 million and \$144.1 million as of December 31, 2012 and 2011, respectively, relating to redemptions that were legally payable to investors as of the balance sheet dates and \$352.3 million and \$233.3 million of payables relating to unsettled purchases within Blackstone's consolidated funds, respectively.

## 12. BORROWINGS

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected funds within those business units. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership's credit facilities consist of the following:

	December 31,					
	2012			2011		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$ 1,100,000	\$ 717	1.25%	\$ 1,020,000	\$ —	—
Blackstone Issued 6.625% Notes Due 8/15/2019 (b) (e)	585,000	585,000	6.63%	600,000	600,000	6.63%
Blackstone Issued 5.875% Notes Due 3/15/2021 (c) (e)	400,000	400,000	5.88%	400,000	400,000	5.88%
Blackstone Issued 4.750% Notes Due 2/15/2023 (d) (e)	400,000	400,000	4.75%	—	—	—
Blackstone Issued 6.250% Notes Due 8/15/2042 (d) (e)	250,000	250,000	6.25%	—	—	—
Operating Entities Facilities (f)	6,228	6,228	1.03%	14,727	14,727	1.29%
	<u>2,741,228</u>	<u>1,641,945</u>	5.90%	<u>2,034,727</u>	<u>1,014,727</u>	6.25%
Blackstone Fund Facilities (g)	23,842	23,842	2.03%	13,506	13,506	2.80%
CLO Vehicles (h)	<u>13,055,784</u>	<u>12,967,302</u>	1.34%	<u>9,373,789</u>	<u>9,367,989</u>	1.96%
	<u>\$15,820,854</u>	<u>\$14,633,089</u>	1.86%	<u>\$11,422,022</u>	<u>\$10,396,222</u>	2.38%

(a) On March 23, 2010, an indirect subsidiary of Blackstone entered into a \$1.07 billion revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. On November 23, 2010, the amount available under the Credit Facility was amended to \$1.02 billion. The unsecured Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. On April 8, 2011, indirect subsidiaries of Blackstone entered into an amendment to the \$1.02 billion Credit Facility with Citibank, N.A., as Administrative Agent. The amendment extended the maturity date of the Credit Facility from March 23, 2013 to April 8, 2016. On July 13, 2012, an indirect subsidiary of Blackstone entered into an amendment to the \$1.02 billion revolving credit facility with Citibank, N.A., as Administrative Agent. The amendment increased the borrowing capacity from \$1.02 billion to \$1.1 billion and extended the maturity date of the Credit Facility from April 8, 2016 to July 13, 2017. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain

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- sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly. As of December 31, 2012, there was an outstanding but undrawn letter of credit against the credit facility for \$0.7 million.
- (b) On August 20, 2009, Blackstone Holdings Finance Co. L.L.C. (the “Issuer”), an indirect subsidiary of the Partnership, issued \$600 million of senior notes. The notes, which were issued at a discount, accrue interest from August 20, 2009. Interest is paid semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. Interest expense on the notes was \$39.4 million, \$39.8 million and \$39.8 million for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, respectively. The carrying and fair values are determined using the original \$600 million par amount less \$15 million of these notes which were acquired but not retired by Blackstone during 2012.
- (c) On September 15, 2010, the Issuer issued \$400 million of senior notes. The notes, which were issued at a discount, accrue interest from September 20, 2010. Interest is payable semiannually in arrears on March 15 and September 15 of each year, commencing on March 15, 2011. Interest expense on the notes was \$23.5 million, \$23.5 million and \$6.6 million for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, respectively.
- (d) On August 17, 2012, the Issuer issued \$400 million of senior notes due February 15, 2023 and \$250 million of senior notes maturing August 15, 2042. The notes, which were issued at a discount, accrue interest from August 17, 2012. Interest is payable semiannually in arrears on February 15 and September 15 of each year, commencing on February 15, 2013. Interest expense on the \$400 million note was \$7.1 million and interest expense on the \$250 million note was \$5.8 million for the year ended December 31, 2012.
- (e) Represents long term borrowings in the form of senior notes (the “Notes”) issued by the Issuer. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings, and the Issuer (the “Guarantors”). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. The indentures include covenants, including limitations on the Issuer’s and the Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indentures also provide for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer’s option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase.
- (f) Represents borrowings under a capital asset purchase facility. The capital asset purchase facility is secured by the purchased asset and borrowings bear interest at a spread to LIBOR. The borrowings are paid down through the termination date of the facility in 2014.
- (g) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and

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are rolled over until the disposition or a refinancing event. Due to the fact that the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.

- (h) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates.

The carrying value and fair value of the Blackstone issued notes as of December 31, 2012 and December 31, 2011 were:

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$640,220	\$682,344	\$653,467	\$640,440
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$398,386	\$456,200	\$398,237	\$404,160
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$392,629	\$426,160	\$ —	\$ —
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$239,619	\$275,275	\$ —	\$ —

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.  
 (b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

At December 31, 2012 and 2011, the Partnership's borrowings through consolidated CLO vehicles consisted of the following:

	December 31, 2012			December 31, 2011		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$11,518,111	1.34%	4.6	\$8,250,418	1.96%	4.3
Subordinated Notes	1,449,191	(a)	2.6	1,117,571	(a)	7.2
	<u>\$12,967,302</u>			<u>\$9,367,989</u>		

- (a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

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Included within Senior Secured Notes and Subordinated Notes as of December 31, 2012 are amounts due to non-consolidated affiliates of \$22.0 million and \$258.2 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2012 was \$10.7 billion and \$846.5 million, respectively, of which \$18.2 million and \$172.9 million represents the amounts due to affiliates.

Included within Senior Secured Notes and Subordinated Notes as of December 31, 2011 are amounts due to non-consolidated affiliates of \$101.8 million and \$323.6 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2011 was \$7.4 billion and \$630.2 million, respectively, of which \$86.9 million and \$205.4 million represents the amounts due to affiliates.

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of December 31, 2012 and 2011, the fair value of the consolidated CLO assets was \$12.5 billion and \$8.7 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2012.

Scheduled principal payments for borrowings at December 31, 2012 are as follows:

	Blackstone Fund		
	Operating Borrowings	Facilities / CLO Vehicles	Total Borrowings
2013	\$ 1,188	\$ 102,111	\$ 103,299
2014	5,040	—	5,040
2015	—	18,825	18,825
2016	—	—	—
2017	—	—	—
Thereafter	1,635,000	12,870,208	14,505,208
<b>Total</b>	<b><u>\$1,641,228</u></b>	<b><u>\$ 12,991,144</u></b>	<b><u>\$ 14,632,372</u></b>

**13. INCOME TAXES**

The Provision for Income Taxes consists of the following:

	Year Ended December 31,		
	2012	2011	2010
<b>Current</b>			
Federal Income Tax	\$ 5,928	\$ 4,509	\$(10,805)
Foreign Income Tax	16,921	22,741	9,378
State and Local Income Tax	36,022	8,997	26,278
	<u>58,871</u>	<u>36,247</u>	<u>24,851</u>
<b>Deferred</b>			
Federal Income Tax	100,875	226,153	42,599
Foreign Income Tax	(691)	403	(2,282)
State and Local Income Tax	25,968	82,908	19,501
	<u>126,152</u>	<u>309,464</u>	<u>59,818</u>
<b>Provision for Taxes</b>	<b><u>\$185,023</u></b>	<b><u>\$345,711</u></b>	<b><u>\$ 84,669</u></b>

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The following table summarizes Blackstone's tax position:

	Year Ended December 31,		
	2012	2011	2010
Income (Loss) Before Provision for Taxes	\$1,014,905	\$ 77,258	\$(522,654)
Total Provision for Taxes	\$ 185,023	\$345,711	\$ 84,669
Effective Income Tax Rate	18.2%	447.5%	-16.2%

The following table reconciles the Provision for Taxes to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2012	2011	2010
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-	-	-
Interest Expense	23.6%	76.9%	26.1%
Foreign Income Taxes	-3.4%	-47.0%	7.3%
State and Local Income Taxes	-3.2%	10.5%	-1.2%
Equity-based Compensation	3.0%	38.7%	-6.6%
Change in Tax Rate	9.3%	132.4%	25.3%
Net Unrecognized Tax Positions	-0.1%	202.9%	—
Non Deductible Expenses	0.7%	7.8%	—
Tax Deductible Compensation	0.6%	2.5%	-0.2%
Other	-0.4%	-10.2%	1.2%
Effective Income Tax Rate (b)	0.3%	-2.0%	-0.3%
	<u>18.2%</u>	<u>447.5%</u>	<u>16.2%</u>

- (a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.
- (b) The effective tax rate is calculated on Income (Loss) Before Provision for Taxes.

In 2011, application of the New York State and New York City tax laws that source various types of receipts from services performed by registered brokers and dealers of securities and commodities for purposes of apportioning income resulted in a reduction to Blackstone's rate of tax for that year and to the rate of tax that Blackstone will pay in the future. The reduction in the rate of tax resulted in a reduction in the 2011 current tax provision and an increase in the 2011 deferred tax provision with a corresponding reduction to the net Deferred Tax Assets of \$233.7 million, with the net result an increase to the effective income tax rate as reflected in the table above.

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Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	December 31,	
	2012	2011
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 16,719	\$ 12,163
Equity Based Compensation	45,329	41,620
Unrealized Gains from Investments	(58,499)	—
Depreciation and Amortization	1,257,145	1,141,343
Net Operating Loss Carry Forward	18,780	57,475
Other	6,137	6,098
<b>Total Deferred Tax Assets</b>	<u>\$1,285,611</u>	<u>\$1,258,699</u>
<b>Deferred Tax Liabilities</b>		
Depreciation and Amortization	\$ 143	\$ 26,032
Unrealized Gains from Investments	—	25,189
<b>Total Deferred Tax Liabilities</b>	<u>\$ 143</u>	<u>\$ 51,221</u>

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had a taxable loss of \$56.8 million and \$81.4 million for the years ended December 31, 2011 and 2010, respectively, of which \$8.8 million will be carried back and utilized against prior year taxable income, \$82.9 million will be utilized against taxable income generated in the tax year ended December 31, 2012 and \$46.5 million will be carried forward to the tax year ended December 31, 2013. The tax loss carryforward will expire in tax year 2031. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance.

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. At this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized including the benefit for the tax loss carryforward from 2011. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2012.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

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Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2012, Blackstone's U.S. federal income tax returns for the years 2009 through 2011 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service is examining certain corporate subsidiaries' 2007 through 2011 U.S. federal income tax returns. State and local tax returns are generally subject to audit from 2007 through 2011. Currently, the State of New York is examining the tax returns filed by Blackstone and certain of its subsidiaries for the years 2007 through 2009 and the City of New York is examining certain other subsidiaries' tax returns for the years 2003 through 2008. The Income Tax Department of the Government of India is examining the tax returns of the Indian subsidiaries for the years 2007 through 2011. Blackstone believes that during 2013 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

At December 31, 2012 and 2011, Blackstone's unrecognized tax benefits, excluding related interest and penalties, were:

	<u>2012</u>	<u>2011</u>
Unrecognized Tax Benefits—January 1	\$12,234	\$ 2,728
Additions based on Tax Positions Related to Current Year	6,117	1,540
Additions for Tax Positions of Prior Years	16,733	7,966
Reductions for Tax Positions of Prior Years	(3,215)	—
Settlements	(1,596)	—
Exchange Rate Fluctuations	469	—
Unrecognized Tax Benefits—December 31	<u>\$30,742</u>	<u>\$12,234</u>

If the above tax benefits were recognized, \$26.8 million and \$8.8 million for the years ended December 31, 2012 and 2011, respectively would reduce the annual effective rate. Blackstone does not believe that it will have a material increase in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expense. During the year ended December 31, 2012, \$5.8 million of interest expense and \$0.5 million of penalties were accrued. During the year ended December 31, 2011, \$1.5 million of interest expense and no penalties were accrued. During the year ended December 31, 2010, no interest expense or penalties were accrued.

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**14. NET INCOME (LOSS) PER COMMON UNIT**

Basic and diluted net income (loss) per common unit for the years ended December 31, 2012, 2011 and 2010 was calculated as follows:

	Year Ended December 31,		
	2012	2011	2010
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 218,598	\$ (168,303)	\$ (370,028)
<b>Basic Net Income (Loss) Per Common Unit:</b>			
Weighted-Average Common Units Outstanding	533,703,606	475,582,718	364,021,369
Net Income (Loss) Per Common Unit	\$ 0.41	\$ (0.35)	\$ (1.02)
<b>Diluted Net Income (Loss) Per Common Unit:</b>			
Weighted-Average Common Units Outstanding	533,703,606	475,582,718	364,021,369
Weighted-Average Unvested Deferred Restricted Common Units	4,965,464	—	—
Weighted-Average Diluted Common Units Outstanding	538,669,070	475,582,718	364,021,369
Diluted Net Income (Loss) Per Common Unit	\$ 0.41	\$ (0.35)	\$ (1.02)

The following table summarizes the anti-dilutive securities for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
Weighted-Average Unvested Deferred Restricted Common Units	—	22,529,309	25,828,413
Weighted-Average Blackstone Holdings Partnership Units	590,446,577	628,115,753	736,772,290

**Unit Repurchase Program**

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone Common Units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone Common Units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the year ended December 31, 2012, no units were repurchased. As of December 31, 2012, the amount remaining available for repurchases under this program was \$335.8 million.

During the year ended December 31, 2011, Blackstone repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total fair value of \$2.1 million.



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During the year ended December 31, 2010, Blackstone repurchased a combination of 107,420 Blackstone Holdings Partnership Units and Blackstone Common Units as part of the unit repurchase program for a total fair value of \$1.5 million.

**15. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone’s senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership’s 2007 Equity Incentive Plan (the “Equity Plan”), the majority of which to date were granted in connection with the IPO. The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone Common Units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2012, the Partnership had the ability to grant 162,195,378 units under the Equity Plan.

For the years ended December 31, 2012, 2011 and 2010 the Partnership recorded compensation expense of \$949.6 million, \$1.4 billion and \$2.4 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of \$25.0 million, \$22.4 million and \$16.1 million, respectively.

As of December 31, 2012, there was \$1.9 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.5 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,144,332,231 as of December 31, 2012. Total outstanding unvested phantom units were 221,356 as of December 31, 2012.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2012 and a summary of changes during the period January 1, 2012 through December 31, 2012 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted- Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
			Deferred Restricted Common Units and Options	Weighted- Average Grant Date Fair Value	Phantom Units	Weighted- Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2011	89,644,650	\$ 29.88	17,635,945	\$ 18.50	218,583	\$ 13.88
Granted	6,014,151	13.33	13,678,114	13.41	28,261	13.67
Vested	(26,984,507)	30.30	(9,961,013)	16.77	(25,488)	13.84
Forfeited	(2,083,205)	30.53	(1,153,664)	18.83	—	—
Balance, December 31, 2012	66,591,089	\$ 28.19	20,199,382	\$ 15.76	221,356	\$ 14.89

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**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of December 31, 2012, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	62,852,332	2.5
Deferred Restricted Blackstone Common Units and Options	16,228,175	2.8
Total Equity-Based Awards	<u>79,080,507</u>	<u>2.6</u>
Phantom Units	<u>210,228</u>	<u>2.4</u>

**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisers and phantom units (cash settled equity-based awards) to other senior and non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's Common Units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 12.3% annually by employee class, and a per unit discount, ranging from \$0.01 to \$12.76 as a majority of these unvested awards do not contain distribution participation rights. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

Subject to an employee's continued employment with Blackstone, the phantom units vested or will vest in equal installments on each of the first, second and third anniversaries of the grant date or, in the case of certain term analysts, in a single installment on the date that the employee completes his or her current contract period with Blackstone. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 3.5% to 12.3% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$0.4 million, \$0.4 million and \$2.2 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2012, 2011 and 2010, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to 8 years from the IPO date. Subsequent to the Reorganization, the Partnership has

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granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has accounted for the unvested Blackstone Holdings Partnership Units as compensation expense. The fair values have been derived based on the closing price of Blackstone's Common Units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone Common Unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 3.5%, based on historical experience.

In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payments to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units, (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations, and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone Common Units, there was no change in the fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2008 and January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense of \$34.0 million, of which \$20.7 million is accounted for as liability awards subject to re-measurement at the end of each reporting period and \$13.3 million is accounted for as equity awards. Certain of these awards will be granted in 2013.

**16. RELATED PARTY TRANSACTIONS**

**Affiliate Receivables and Payables**

As of December 31, 2012 and 2011, Due from Affiliates and Due to Affiliates comprised the following:

	December 31,	
	2012	2011
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 165,322	\$167,415
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	155,302	223,281
Amounts Due from Portfolio Companies and Funds	259,196	234,254
Investments Redeemed in Non-Consolidated Funds of Funds	39,507	67,608
Management and Performance Fees Due from Non-Consolidated Funds	343,846	71,162
Payments Made on Behalf of Non-Consolidated Entities	150,317	87,711
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	6,577	9,083
	<u>\$1,120,067</u>	<u>\$860,514</u>

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	December 31,	
	2012	2011
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$1,218,488	\$1,112,330
Accrual for Potential Repayment of Previously Received Performance Fees	267,116	266,300
Due to Note-Holders of Consolidated CLO Vehicles	191,128	292,372
Due to Certain Non-Controlling Interest Holders	201,286	—
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	12,506	20,526
Payable to Affiliates for Consolidated Funds	81,589	58,793
Distributions Received on Behalf of Blackstone Entities	20,295	42,620
Payments Made by Non-Consolidated Entities	10,236	18,527
	<u>\$2,002,644</u>	<u>\$1,811,468</u>

**Interests of the Founder, Senior Managing Directors and Employees**

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of December 31, 2012 and 2011, the founder's, other senior managing directors' and employees' investments aggregated \$939.4 million and \$715.5 million, respectively, and the founder's, other senior managing directors' and employees' share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$114.1 million, \$109.4 million and \$219.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees earned from affiliates totaled \$254.7 million, \$317.7 million and \$189.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$4.4 million, \$3.7 million and \$3.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either

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Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2012. See Note 17. “Commitments and Contingencies—Contingencies—Contingent Obligations (Clawback)”.

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman (“Personal Aircraft”). In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman paid for his purchases of the aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. In addition, Mr. Schwarzman is charged for his and his family’s personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone Common Units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone’s wholly-owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

During the fourth quarter of 2011, the effective tax rate of the corporate taxpayers was reduced due to the adoption of New York State and New York City tax laws for sourcing of revenue for apportionment purposes. This resulted in a reduction of \$197.8 million due to pre-IPO owners and the others mentioned above. Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$364.6 million assuming a 15% discount rate and using Blackstone’s most recent projections relating to the estimated timing of the benefit to be received.

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Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. On December 31, 2012, payments totaling \$34.2 million were made to certain pre-IPO owners in accordance with the tax receivable agreements and related tax benefits the Partnership received for the 2011 taxable year.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2032. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2012, 2011 and 2010, was \$74.8 million, \$72.7 million and \$66.4 million, respectively. At December 31, 2012 and 2011, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$9.4 million and \$8.4 million, respectively. As of December 31, 2012, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2013	\$ 67,883
2014	62,222
2015	60,412
2016	56,628
2017	50,587
Thereafter	<u>178,771</u>
Total	<u>\$476,503</u>

*Investment Commitments*

Blackstone had \$1.2 billion of investment commitments as of December 31, 2012 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$42.1 million as of December 31, 2012 which includes \$14.7 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies**

*Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to

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the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$5.4 million as of December 31, 2012.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of December 31, 2012 was \$58.0 million.

*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds and multi-asset class investment funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2018. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The following table presents the clawback obligations by segment:

Segment	December 31,					
	2012			2011		
	Current and			Current and		
	Blackstone Holdings	Former Personnel	Total	Blackstone Holdings	Former Personnel	Total
Private Equity	\$ 69,302	\$ 133,852	\$ 203,154	\$ 68,044	\$ 128,756	\$ 196,800
Real Estate	32,152	31,223	63,375	30,841	38,659	69,500
Credit	340	247	587	—	—	—
Total	<u>\$ 101,794</u>	<u>\$ 165,322</u>	<u>\$ 267,116</u>	<u>\$ 98,885</u>	<u>\$ 167,415</u>	<u>\$ 266,300</u>

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2012, \$419.7 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

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**18. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the “Plan”) for eligible employees in the United States. For certain finance and administrative professionals who are participants in the Plan, the Partnership contributes 2% of such professional’s pre-tax annual compensation up to a maximum of one thousand six hundred dollars. In addition, the Partnership will contribute 50% of pre-tax annual compensation contributed by such professional participants with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2012, 2011 and 2010, the Partnership incurred expenses of \$1.5 million, \$1.4 million and \$1.3 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom (“U.K. Plan”). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee’s annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2012, 2011 and 2010, the Partnership incurred expenses of \$0.4 million, \$0.3 million and \$0.3 million, respectively, in connection with the U.K. Plan.

**19. REGULATED ENTITIES**

The Partnership has certain entities that are registered broker-dealers which are subject to the minimum net capital requirements of the United States Securities and Exchange Commission (“SEC”). These entities have continuously operated in excess of these requirements. The Partnership also has two entities based in London which are subject to the capital requirements of the U.K. Financial Services Authority. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities which are registered as investment advisers with the SEC.

The regulatory capital requirements referred to above may restrict the Partnership’s ability to withdraw capital from its entities. At December 31, 2012, \$13.2 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**20. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management and financial advisory businesses through five segments:

- Private Equity—Blackstone’s Private Equity segment comprises its management of private equity funds and certain multi-asset class investment funds.
- Real Estate—Blackstone’s Real Estate segment primarily comprises its management of global opportunistic real estate funds and European focused opportunistic real estate funds. In addition, the segment has debt investment funds targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.



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- **Hedge Fund Solutions**—Blackstone’s Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (“BAAM”), an institutional solutions provider utilizing hedge funds across a variety of strategies.
- **Credit**—Blackstone’s Credit segment, which principally includes GSO, manages credit-focused funds, CLOs, separately managed accounts and registered investment companies. Prior to September 30, 2012, this segment had been called Credit Businesses.
- **Financial Advisory**—Blackstone’s Financial Advisory segment comprises its financial and strategic advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Income (“EI”) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone’s IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income (“ENI”) now represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Management makes operating decisions and assesses the performance of each of Blackstone’s business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

## THE BLACKSTONE GROUP L.P.

## Notes to Consolidated Financial Statements

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

The following table presents the financial data for Blackstone's five segments as of and for the years ended December 31, 2012, 2011 and 2010:

	December 31, 2012 and the Year Then Ended					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 348,594	\$ 551,322	\$ 346,210	\$ 345,277	\$ —	\$ 1,591,403
Advisory Fees	—	—	—	—	357,417	357,417
Transaction and Other Fees, Net	100,080	85,681	188	40,875	295	227,119
Management Fee Offsets	(5,926)	(28,609)	(1,414)	(5,004)	—	(40,953)
Total Management and Advisory Fees, Net	442,748	608,394	344,984	381,148	357,712	2,134,986
Performance Fees						
Realized						
Carried Interest	109,797	165,114	—	52,511	—	327,422
Incentive Fees	—	25,656	83,433	192,375	—	301,464
Unrealized						
Carried Interest	148,381	683,764	—	162,045	—	994,190
Incentive Fees	—	(119)	9,042	(38,234)	—	(29,311)
Total Performance Fees	258,178	874,415	92,475	368,697	—	1,593,765
Investment Income (Loss)						
Realized	25,823	45,302	7,270	15,611	1,392	95,398
Unrealized	85,337	90,875	8,517	4,769	1,348	190,846
Total Investment Income	111,160	136,177	15,787	20,380	2,740	286,244
Interest and Dividend Revenue	13,556	14,448	2,139	9,330	7,157	46,630
Other	2,417	894	3,816	(1,174)	(804)	5,149
Total Revenues	828,059	1,634,328	459,201	778,381	366,805	4,066,774
<b>Expenses</b>						
Compensation and Benefits						
Compensation	222,709	271,122	119,731	182,077	235,137	1,030,776
Performance Fee Compensation						
Realized						
Carried Interest	3,679	62,418	—	30,336	—	96,433
Incentive Fees	—	13,060	23,080	103,902	—	140,042
Unrealized						
Carried Interest	58,555	165,482	—	97,562	—	321,599
Incentive Fees	—	(583)	1,317	(45,262)	—	(44,528)
Total Compensation and Benefits	284,943	511,499	144,128	368,615	235,137	1,544,322
Other Operating Expenses	130,845	123,714	57,809	84,488	84,589	481,445
Total Expenses	415,788	635,213	201,937	453,103	319,726	2,025,767
Economic Income (Loss)	\$ 412,271	\$ 999,115	\$ 257,264	\$ 325,278	\$ 47,079	\$ 2,041,007
Segment Assets	\$4,625,310	\$5,599,759	\$ 876,881	\$2,004,529	\$749,000	\$13,855,479

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2011 and the Year Then Ended					Total Segments
	Private Equity	Real Estate	Hedge Fund		Financial Advisory	
			Solutions	Credit		
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 331,997	\$ 394,778	\$ 315,863	\$ 238,547	\$ —	\$ 1,281,185
Advisory Fees	—	—	—	—	382,240	382,240
Transaction and Other Fees, Net	133,004	109,510	2,798	1,880	321	247,513
Management Fee Offsets	(27,073)	(4,950)	(980)	(390)	—	(33,393)
Total Management and Advisory Fees, Net	<u>437,928</u>	<u>499,338</u>	<u>317,681</u>	<u>240,037</u>	<u>382,561</u>	<u>1,877,545</u>
Performance Fees						
Realized						
Carried Interest	37,393	22,844	—	78,670	—	138,907
Incentive Fees	—	9,629	11,472	67,928	—	89,029
Unrealized						
Carried Interest	33,490	913,418	—	24,610	—	971,518
Incentive Fees	—	3,658	774	(29,360)	—	(24,928)
Total Performance Fees	<u>70,883</u>	<u>949,549</u>	<u>12,246</u>	<u>141,848</u>	<u>—</u>	<u>1,174,526</u>
Investment Income (Loss)						
Realized						
Realized	44,988	27,972	17,722	11,299	594	102,575
Unrealized	9,476	92,648	(19,031)	(708)	304	82,689
Total Investment Income (Loss)	54,464	120,620	(1,309)	10,591	898	185,264
Interest and Dividend Revenue	13,749	12,902	2,025	3,369	6,799	38,844
Other	1,810	(1,061)	7,902	(853)	(383)	7,415
Total Revenues	<u>578,834</u>	<u>1,581,348</u>	<u>338,545</u>	<u>394,992</u>	<u>389,875</u>	<u>3,283,594</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	217,556	236,771	128,959	128,588	248,695	960,569
Performance Fee Compensation						
Realized						
Carried Interest	1,465	10,103	—	32,047	—	43,615
Incentive Fees	—	4,564	3,498	47,850	—	55,912
Unrealized						
Carried Interest	(2,229)	221,140	—	19,033	—	237,944
Incentive Fees	—	3,106	234	(24,099)	—	(20,759)
Total Compensation and Benefits	216,792	475,684	132,691	203,419	248,695	1,277,281
Other Operating Expenses	120,918	103,859	65,072	49,955	81,538	421,342
Total Expenses	<u>337,710</u>	<u>579,543</u>	<u>197,763</u>	<u>253,374</u>	<u>330,233</u>	<u>1,698,623</u>
Economic Income	<u>\$ 241,124</u>	<u>\$1,001,805</u>	<u>\$ 140,782</u>	<u>\$ 141,618</u>	<u>\$ 59,642</u>	<u>\$ 1,584,971</u>
Segment Assets	<u>\$4,053,480</u>	<u>\$4,102,246</u>	<u>\$ 808,030</u>	<u>\$1,628,772</u>	<u>\$651,502</u>	<u>\$11,244,030</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Year Ended December 31, 2010					Total Segments
	Private Equity	Real Estate	Hedge Fund		Financial Advisory	
			Solutions	Credit		
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$263,307	\$ 338,428	\$ 272,773	\$194,963	\$ —	\$1,069,471
Advisory Fees	—	—	—	—	426,140	426,140
Transaction and Other Fees, Net	72,243	59,914	3,572	1,657	362	137,748
Management Fee Offsets	(188)	(1,071)	(330)	(724)	—	(2,313)
Total Management and Advisory Fees, Net	<u>335,362</u>	<u>397,271</u>	<u>276,015</u>	<u>195,896</u>	<u>426,502</u>	<u>1,631,046</u>
Performance Fees						
Realized						
Carried Interest	156,869	16,113	—	71,981	—	244,963
Incentive Fees	—	24,175	56,626	35,899	—	116,700
Unrealized						
Carried Interest	151,494	218,706	—	86,802	—	457,002
Incentive Fees	—	38,265	2,982	66,377	—	107,624
Total Performance Fees	<u>308,363</u>	<u>297,259</u>	<u>59,608</u>	<u>261,059</u>	<u>—</u>	<u>926,289</u>
Investment Income						
Realized						
Realized	15,332	11,251	9,818	9,700	814	46,915
Unrealized						
Unrealized	153,288	318,979	19,361	9,472	534	501,634
Total Investment Income	168,620	330,230	29,179	19,172	1,348	548,549
Interest and Dividend Revenue	14,044	11,173	1,869	3,038	5,972	36,096
Other	2,021	(336)	97	(488)	(1,912)	(618)
Total Revenues	<u>828,410</u>	<u>1,035,597</u>	<u>366,768</u>	<u>478,677</u>	<u>431,910</u>	<u>3,141,362</u>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	179,345	183,177	95,386	123,257	277,949	859,114
Performance Fee Compensation						
Realized						
Carried Interest	32,627	4,545	—	33,544	—	70,716
Incentive Fees	—	11,299	20,633	25,668	—	57,600
Unrealized						
Carried Interest	21,320	103,406	—	40,614	—	165,340
Incentive Fees	—	19,458	1,067	42,781	—	63,306
Total Compensation and Benefits	233,292	321,885	117,086	265,864	277,949	1,216,076
Other Operating Expenses	109,589	74,189	51,360	39,106	70,272	344,516
Total Expenses	<u>342,881</u>	<u>396,074</u>	<u>168,446</u>	<u>304,970</u>	<u>348,221</u>	<u>1,560,592</u>
Economic Income	<u>\$485,529</u>	<u>\$ 639,523</u>	<u>\$ 198,322</u>	<u>\$173,707</u>	<u>\$ 83,689</u>	<u>\$1,580,770</u>

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision (Benefit) for Taxes and Total Assets as of and for the years ended December 31, 2012, 2011 and 2010:

	December 31, 2012 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling	Blackstone Consolidated
		Items	
Revenues	\$ 4,066,774	\$ (47,333)(a)	\$ 4,019,441
Expenses	\$ 2,025,767	\$ 1,234,914(b)	\$ 3,260,681
Other Income	\$ —	\$ 256,145(c)	\$ 256,145
Economic Income	\$ 2,041,007	\$ (1,026,102)(d)	\$ 1,014,905
Total Assets	\$13,855,479	\$ 15,076,073(e)	\$28,931,552

	December 31, 2011 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling	Blackstone Consolidated
		Items	
Revenues	\$ 3,283,594	\$ (31,018)(a)	\$ 3,252,576
Expenses	\$ 1,698,623	\$ 1,689,446(b)	\$ 3,388,069
Other Income	\$ —	\$ 212,751(c)	\$ 212,751
Economic Income	\$ 1,584,971	\$ (1,507,713)(d)	\$ 77,258
Total Assets	\$11,244,030	\$ 10,665,099(e)	\$21,909,129

	Year Ended December 31, 2010		
	Total Segments	Consolidation Adjustments and Reconciling	Blackstone Consolidated
		Items	
Revenues	\$3,141,362	\$ (22,020)(a)	\$3,119,342
Expenses	\$1,560,592	\$ 2,583,398(b)	\$4,143,990
Other Income	\$ —	\$ 501,994(c)	\$ 501,994
Economic Income (Loss)	\$1,580,770	\$ (2,103,424)(d)	\$ (522,654)

- (a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Year Ended December 31,		
	2012	2011	2010
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ 43,393	\$ 21,000	\$ 17,165
Fund Expenses Added in Consolidation	37,548	30,129	30,776
Non-Controlling Interests in Income (Loss) of Consolidated Entities	203,557	(16,916)	431,149
Transaction-Related Other Income	(28,353)	178,538	22,904
Total Consolidation Adjustments and Reconciling Items	<u>\$256,145</u>	<u>\$212,751</u>	<u>\$501,994</u>

THE BLACKSTONE GROUP L.P.

Notes to Consolidated Financial Statements

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

- (d) The reconciliation of Economic Income to Income (Loss) Before Provision (Benefit) for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2012	2011	2010
Economic Income	\$ 2,041,007	\$ 1,584,971	\$ 1,580,770
Adjustments			
Amortization of Intangibles	(150,148)	(220,865)	(165,378)
IPO and Acquisition-Related Charges	(1,079,511)	(1,269,932)	(2,369,195)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	203,557	(16,916)	431,149
Total Consolidation Adjustments and Reconciling Items	(1,026,102)	(1,507,713)	(2,103,424)
Income (Loss) Before Provision for Taxes	\$ 1,014,905	\$ 77,258	\$ (522,654)

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

21. SUBSEQUENT EVENTS

There have been no events since December 31, 2012 that require recognition or disclosure in the Consolidated Financial Statements.

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Revenues	\$952,036	\$627,203	\$1,223,089	\$1,217,113
Expenses	783,793	739,819	851,390	885,679
Other Income (Loss)	288,142	248,230	(135,960)	(144,267)
Income (Loss) Before Provision for Taxes	\$456,385	\$135,614	\$ 235,739	\$ 187,167
Net Income (Loss)	\$417,632	\$ 94,277	\$ 196,502	\$ 121,471
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 58,325	\$(74,964)	\$ 128,824	\$ 106,413
Net Income (Loss) Per Common Unit—Basic and Diluted				
Common Units—Basic	\$ 0.12	\$ (0.14)	\$ 0.24	\$ 0.19
Common Units—Diluted	\$ 0.11	\$ (0.14)	\$ 0.24	\$ 0.19
Distributions Declared (a)	\$ 0.22	\$ 0.10	\$ 0.10	\$ 0.10

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Three Months Ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Revenues	\$1,153,269	\$1,308,281	\$ (124,079)	\$ 915,105
Expenses	990,864	984,831	540,934	871,440
Other Income (Loss)	(45,191)	(74,654)	(329,399)	661,995
Income (Loss) Before Provision for Taxes	<u>\$ 117,214</u>	<u>\$ 248,796</u>	<u>\$ (994,412)</u>	<u>\$ 705,660</u>
Net Income (Loss)	<u>\$ 78,364</u>	<u>\$ 184,597</u>	<u>\$ (986,775)</u>	<u>\$ 455,361</u>
Income (Loss) Attributable to The Blackstone Group L.P.	<u>\$ 42,704</u>	<u>\$ 86,237</u>	<u>\$ (274,567)</u>	<u>\$ (22,677)</u>
Net Loss Per Common Unit—Basic and Diluted				
Common Units—Basic	<u>\$ 0.10</u>	<u>\$ 0.18</u>	<u>\$ (0.56)</u>	<u>\$ (0.05)</u>
Common Units—Diluted	<u>\$ 0.09</u>	<u>\$ 0.18</u>	<u>\$ (0.56)</u>	<u>\$ (0.05)</u>
Distributions Declared (a)	<u>\$ 0.32</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>

(a) Distributions declared reflects the calendar date of the declaration of each distribution.

**THE BLACKSTONE GROUP L.P.**  
**Notes to Consolidated Financial Statements**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION**

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
**(Dollars in Thousands)**

	December 31, 2012			
	Consolidated Operating Partnerships (a)	Consolidated Blackstone Funds (b)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 709,502	\$ —	\$ —	\$ 709,502
Cash Held by Blackstone Funds and Other	154,555	1,249,856	—	1,404,411
Investments	7,324,538	14,004,268	(481,536)	20,847,270
Accounts Receivable	402,395	235,769	—	638,164
Reverse Repurchase Agreements	248,018	—	—	248,018
Due from Affiliates	1,114,835	42,683	(37,451)	1,120,067
Intangible Assets, Net	598,535	—	—	598,535
Goodwill	1,703,602	—	—	1,703,602
Other Assets	313,888	63,618	(1,134)	376,372
Deferred Tax Assets	1,285,611	—	—	1,285,611
<b>Total Assets</b>	<u>\$ 13,855,479</u>	<u>\$ 15,596,194</u>	<u>\$ (520,121)</u>	<u>\$28,931,552</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,677,081	\$ 11,374,323	\$ —	\$13,051,404
Due to Affiliates	1,711,003	358,448	(66,807)	2,002,644
Accrued Compensation and Benefits	1,254,978	—	—	1,254,978
Securities Sold, Not Yet Purchased	226,425	—	—	226,425
Repurchase Agreements	142,266	—	—	142,266
Accounts Payable, Accrued Expenses and Other Liabilities	365,005	674,454	(571)	1,038,888
<b>Total Liabilities</b>	<u>5,376,758</u>	<u>12,407,225</u>	<u>(67,378)</u>	<u>17,716,605</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>1,556,185</u>	<u>—</u>	<u>1,556,185</u>
<b>Partners' Capital</b>				
Partners' Capital	4,955,649	455,309	(455,309)	4,955,649
Appropriated Partners' Capital	—	509,028	—	509,028
Accumulated Other Comprehensive Income	1,047	1,123	—	2,170
Non-Controlling Interests in Consolidated Entities	773,669	667,324	2,566	1,443,559
Non-Controlling Interests in Blackstone Holdings	2,748,356	—	—	2,748,356
<b>Total Partners' Capital</b>	<u>8,478,721</u>	<u>1,632,784</u>	<u>(452,743)</u>	<u>9,658,762</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$ 13,855,479</u>	<u>\$ 15,596,194</u>	<u>\$ (520,121)</u>	<u>\$28,931,552</u>



**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition-(Continued)**  
**(Dollars in Thousands)**

	December 31, 2011			
	Consolidated Operating Partnerships (a)	Consolidated Blackstone Funds (b)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 754,744	\$ —	\$ —	\$ 754,744
Cash Held by Blackstone Funds and Other	46,282	678,480	—	724,762
Investments	5,289,125	10,282,084	(442,910)	15,128,299
Accounts Receivable	347,241	58,899	—	406,140
Reverse Repurchase Agreements	139,485	—	—	139,485
Due from Affiliates	784,095	107,042	(30,623)	860,514
Intangible Assets, Net	595,488	—	—	595,488
Goodwill	1,703,602	—	—	1,703,602
Other Assets	325,269	12,127	—	337,396
Deferred Tax Assets	1,258,699	—	—	1,258,699
<b>Total Assets</b>	<b>\$ 11,244,030</b>	<b>\$ 11,138,632</b>	<b>\$ (473,533)</b>	<b>\$21,909,129</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,066,432	\$ 7,801,136	\$ —	\$ 8,867,568
Due to Affiliates	1,425,558	437,520	(51,610)	1,811,468
Accrued Compensation and Benefits	903,260	—	—	903,260
Securities Sold, Not Yet Purchased	143,825	—	—	143,825
Repurchase Agreements	101,849	—	—	101,849
Accounts Payable, Accrued Expenses and Other Liabilities	414,080	414,866	(73)	828,873
<b>Total Liabilities</b>	<b>4,055,004</b>	<b>8,653,522</b>	<b>(51,683)</b>	<b>12,656,843</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>				
	—	1,091,833	—	1,091,833
<b>Partners' Capital</b>				
Partners' Capital	4,281,841	421,898	(421,898)	4,281,841
Appropriated Partners' Capital	—	386,864	—	386,864
Accumulated Other Comprehensive Income	1,272	686	—	1,958
Non-Controlling Interests in Consolidated Entities	445,393	583,829	48	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,460,520	—	—	2,460,520
<b>Total Partners' Capital</b>	<b>7,189,026</b>	<b>1,393,277</b>	<b>(421,850)</b>	<b>8,160,453</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 11,244,030</b>	<b>\$ 11,138,632</b>	<b>\$ (473,533)</b>	<b>\$21,909,129</b>

(a) Included within the assets and liabilities of the Consolidated Operating Partnerships is \$2.2 billion and \$1.5 billion as of December 31, 2012 and 2011, respectively, representing net accrued performance fees due from the Blackstone Funds. Additional detail on this amount is presented in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations— *Net Accrued Performance Fees*" of this filing.

(b) The Consolidated Blackstone Funds consisted of the following:

- Blackstone Distressed Securities Fund L.P.
- Blackstone Hedged Equity Fund L.P.\*
- Blackstone Market Opportunities Fund L.P.
- Blackstone Strategic Alliance Fund L.P.
- Blackstone Strategic Alliance Fund II L.P.

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Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles  
\* Consolidated as of December 31, 2012 only.

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### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### Management's Report on Internal Control Over Financial Reporting

Management of The Blackstone Group L.P. and subsidiaries ("Blackstone") is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone's internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Blackstone's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2012 based on the framework established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Blackstone's internal control over financial reporting as of December 31, 2012 was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone's financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone's internal control over financial reporting as of December 31, 2012, which is included herein.

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**ITEM 9B. OTHER INFORMATION**

None.

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### PART III.

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Directors and Executive Officers of Blackstone Group Management L.L.C.

The directors and executive officers of Blackstone Group Management L.L.C. as of the date of this filing, are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen A. Schwarzman	66	Founder, Chairman and Chief Executive Officer and Director
Hamilton E. James	62	President, Chief Operating Officer and Director
J. Tomilson Hill	64	Vice Chairman and Director
Jonathan D. Gray	43	Global Head of Real Estate and Director
Laurence A. Tosi	45	Chief Financial Officer
John G. Finley	56	Chief Legal Officer
Joan Solotar	48	Senior Managing Director—External Relations and Strategy
Richard H. Jenrette	83	Director
Jay O. Light	71	Director
The Right Honorable Brian Mulroney	73	Director
William G. Parrett	67	Director

**Stephen A. Schwarzman** is the Chairman and Chief Executive Officer of Blackstone and the Chairman of the board of directors of our general partner. Mr. Schwarzman was elected Chairman of the board of directors of our general partner effective March 20, 2007. Mr. Schwarzman is a founder of Blackstone and has been involved in all phases of the firm's development since its founding in 1985. Mr. Schwarzman began his career at Lehman Brothers, where he was elected Managing Director in 1978. He was engaged principally in the firm's mergers and acquisitions business from 1977 to 1984, and served as Chairman of the firm's Mergers & Acquisitions Committee in 1983 and 1984. Mr. Schwarzman is a member of The Council on Foreign Relations, The Business Council, The Business Roundtable, and The International Business Council of the World Economic Forum. He serves on the boards of The New York Public Library, The Asia Society, The Board of Directors of The New York City Partnership and The Advisory Board of the School of Economics and Management at Tsinghua University, Beijing. He is a Trustee of The Frick Collection in New York City and Chairman Emeritus of the Board of Directors of The John F. Kennedy Center for the Performing Arts. Mr. Schwarzman was awarded the Légion d'Honneur of France in 2007 and promoted to Officier by President Nicolas Sarkozy in 2010. Mr. Schwarzman holds a BA from Yale University and an MBA from Harvard Business School. He has served as an adjunct professor at the Yale School of Management and on the Harvard Business School Board of Dean's Advisors. In 2012, he was awarded an Honorary Degree from Quinnipiac University.

**Hamilton E. James** is President, Chief Operating Officer of Blackstone and a member of the board of directors of our general partner. Mr. James was elected to the board of directors of our general partner effective March 20, 2007. Prior to joining Blackstone in 2002, Mr. James was Chairman of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of its Executive Board since the acquisition of Donaldson, Lufkin & Jenrette, or "DLJ," by Credit Suisse First Boston in 2000. Prior to the acquisition of DLJ, Mr. James was the Chairman of DLJ's Banking Group, responsible for all the firm's investment banking and merchant banking activities and a member of its Board of Directors. Mr. James joined DLJ in 1975 as an Investment Banking associate. He became head of DLJ's global mergers and acquisitions group in 1982, founded DLJ Merchant Banking, Inc. in 1985, and was named Chairman of the Banking Group in 1995 with responsibility for all of the firm's investment banking, alternative asset management and emerging market sales and trading activities. Mr. James is a Director of Costco Wholesale Corporation and was, until March 1, 2013, a Director of Swift River Investments, Inc., and has served on a number of other corporate boards. Mr. James is Trustee of The Metropolitan Museum of Art, Trustee and member of The Executive Committee of the Second

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Stage Theatre, Vice Chairman of Trout Unlimited's Coldwater Conservations Fund, Trustee of Woods Hole Oceanographic Institute, Advisory Board Member of the Montana Land Reliance, Trustee of the Wildlife Conservation Society and Chairman Emeritus of the Board of Trustees of American Ballet Theatre. Mr. James received a BA from Harvard College and an MBA from Harvard Business School.

**J. Tomilson Hill** is President and Chief Executive Officer of Blackstone Alternative Asset Management ("BAAM"), a Vice Chairman of The Blackstone Group L.P. and a member of the board of directors of our general partner. Mr. Hill was elected to the board of directors of our general partner effective March 20, 2007. Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role as Chief Executive Officer of BAAM. In his current capacity, Mr. Hill is responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of its Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc. Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee and serves on the Council's Board of Directors, and is a member of the Board of Directors of Lincoln Center Theater, where he is Chairman. He serves on the Board of the Telluride Foundation, the Advantage Testing Foundation, and of Our Lady Queen of Angels School, a parochial school (K-8th grade) in Spanish Harlem. He is a member of the Board of Directors of OpenPeak Inc. and Advantage Testing, Inc.

**Jonathan D. Gray** is Global Head of Real Estate and a member of the board of directors of our general partner. Mr. Gray was elected to the board of directors of our general partner effective February 24, 2012. He also sits on the firm's Management and Executive Committees. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with more than \$50 billion in investor capital under management. Blackstone's portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe and Asia. Major holdings include Hilton Worldwide, Equity Office Properties, Brixmor shopping centers and London's Broadgate office complex. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania, where he graduated magna cum laude and was elected to Phi Beta Kappa. He currently serves as a board member of the Pension Real Estate Association and Trinity School and is Chairman of the Board of Harlem Village Academies. Mr. Gray and his wife, Mindy, recently established the Bassar Research Center at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused breast and ovarian cancers.

**Laurence A. Tosi** is Blackstone's Chief Financial Officer and a member of the firm's Management and Executive Committees. Before joining Blackstone in 2008, Mr. Tosi was a Managing Partner and the Chief Operating Officer of Global Markets and Investment Banking at Merrill Lynch & Co., a position which he held since 2007. From 2004 through 2007, Mr. Tosi was Merrill Lynch's Finance Director and Principal Accounting Officer responsible for global finance, including worldwide accounting, regulatory reporting, budgeting and corporate business development. Prior to that, Mr. Tosi was Chief Financial Officer and Head of Merrill Lynch business finance from 2002 to 2004. He was also global Head of Corporate Development from 1999 to 2007 where he managed many of the firm's strategic acquisitions and investments. Mr. Tosi joined Merrill Lynch in 1999 prior to which he was Director of Business Development for General Electric Company's NBC division. Mr. Tosi received a BA, a JD and an MBA from Georgetown University where he currently serves on the University's Board of Regents.

**John G. Finley** is Chief Legal Officer of Blackstone and a member of the firm's Executive Committee. Before joining Blackstone in 2010, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years where he was most recently a member of that law firm's Executive Committee and Head of Global Mergers &

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Acquisitions. Mr. Finley is a member of the Advisory Board of the Harvard Law School Program on Corporate Governance and a Trustee of the Jewish Board of Family and Children Services. Mr. Finley received a BS in Economics and a BA in History from the University of Pennsylvania, and a JD from Harvard Law School.

**Joan Solotar** is a Senior Managing Director, Head of the External Relations and Strategy Group of Blackstone and a member of the firm's Management and Executive Committees. Ms. Solotar has management responsibility for shareholder relations and public affairs and also guides the firm on analyzing strategic development opportunities. Before joining Blackstone in 2007, Ms. Solotar was with Banc of America Securities where she was a Managing Director and Head of Equity Research. She started her career in equity research at The First Boston Corporation and prior to joining Bank of America was part of the financial services team at Donaldson, Lufkin & Jenrette and later with Credit Suisse First Boston as a Managing Director. Ms. Solotar was ranked each year from 1995 to 2002 in the Brokers and Asset Management category on the Institutional Investor All-America Research Team, and consistently ranked highly in the Greenwich Survey of portfolio managers. She also served as Chairperson of the Research Committee for the Securities Industry Association. Ms. Solotar received a BS in Management Information Systems at the State University of New York at Albany and an MBA in Finance at New York University. She is currently on the Board of Directors of the East Harlem Tutorial Program.

**Richard H. Jenrette** is a member of the board of directors of our general partner. Mr. Jenrette was elected to the board of directors of our general partner effective July 14, 2008. Mr. Jenrette is the retired former Chairman and Chief Executive Officer of The Equitable Companies Incorporated and the co-founder and retired Chairman and Chief Executive Officer of Donaldson, Lufkin & Jenrette, Inc. He is also a former Chairman of The Securities Industry Association and has served in the past as a director or trustee of The McGraw-Hill Companies, Advanced Micro Devices Inc., the American Stock Exchange, The Rockefeller Foundation, The Duke Endowment, the University of North Carolina, New York University and The National Trust for Historic Preservation.

**Jay O. Light** is a member of the board of directors of our general partner. Mr. Light was elected to the board of directors of our general partner effective September 18, 2008. Mr. Light is the Dean Emeritus of Harvard Business School and the George F. Baker Professor of Administration Emeritus. Prior to that, Mr. Light was the Dean of Harvard Business School from 2006 to 2010. Before becoming the Dean of Harvard Business School, Mr. Light was Senior Associate Dean, Chairman of the Finance Area, and a professor teaching Investment Management, Capital Markets, and Entrepreneurial Finance for 30 years. Mr. Light is a director of the Harvard Management Company, a director of Partners HealthCare (the Mass General and Brigham & Women's Hospitals) and chairman of its Investment Committee, a member of the Investment Committee of several endowments, a director of several private firms, and an advisor/trustee to several corporate and institutional pools of capital. In prior years until 2008, Mr. Light was a Trustee of the GMO Trusts, a family of mutual funds for institutional investors.

**The Right Honorable Brian Mulroney** is a member of the board of directors of our general partner. Mr. Mulroney was elected to the board of directors of our general partner effective June 21, 2007. Mr. Mulroney is a senior partner and international business consultant for the Montreal law firm, Norton Rose Canada LLP. Prior to joining Norton Rose Canada, Mr. Mulroney was the eighteenth Prime Minister of Canada from 1984 to 1993 and leader of the Progressive Conservative Party of Canada from 1983 to 1993. He served as the Executive Vice President of the Iron Ore Company of Canada and President beginning in 1977. Prior to that, Mr. Mulroney served on the Cliché Commission of Inquiry in 1974. Mr. Mulroney is a Senior Advisor of Global Affairs at Barrick Gold Corporation. He also serves on Barrick's board of directors and is the Chairman of their International Advisory Board. Mr. Mulroney is also a member of the Board of Directors of Quebecor Inc., Quebecor Media Inc. and Wyndham Worldwide Corporation. In prior years until 2009, Mr. Mulroney was a member of the Board of Directors of Archer Daniels Midland Company and Quebecor World Inc.

**William G. Parrett** is a member of the board of directors of our general partner. Mr. Parrett was elected to the board of directors of our general partner effective November 9, 2007. Until May 31, 2007, Mr. Parrett served



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as the Chief Executive Officer of Deloitte Touche Tohmatsu. Certain of the member firms of Deloitte Touche Tohmatsu or their subsidiaries and affiliates provide professional services to The Blackstone Group L.P. or its affiliates. Mr. Parrett co-founded the Global Financial Services Industry practice of Deloitte and served as its first Chairman. Currently, Mr. Parrett is a member of the board of directors of the United States Council for International Business. Mr. Parrett is a member of the board of directors of Thermo Fisher Scientific Inc., Eastman Kodak Company and UBS AG, and is Chairman of the audit committee of each of these companies as well as the Corporate Responsibility Committee of UBS and the Strategy and Finance Committee of Thermo Fisher. He is a member of the Board of Trustees of Carnegie Hall and a past Chairman of the Board of Trustees of United Way Worldwide.

### Board Composition

Our general partner seeks to ensure that the board of directors of our general partner is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the board of directors of our general partner, Mr. Schwarzman takes into account (a) minimum individual qualifications, such as strength of character, mature judgment, industry knowledge or experience and an ability to work collegially with the other members of the board of directors, and (b) all other factors he considers appropriate.

After conducting an initial evaluation of a candidate, Mr. Schwarzman will interview that candidate if he believes the candidate might be suitable to be a director and may also ask the candidate to meet with other directors and senior management. If, following such interview and any consultations with senior management, Mr. Schwarzman believes a candidate would be a valuable addition to the board of directors, he will appoint that individual to the board of directors of our general partner.

When considering whether the board's directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the board to satisfy its oversight responsibilities effectively in light of the Partnership's business and structure, Mr. Schwarzman focused on the information described in each of the board members' biographical information set forth above. In particular, with regard to Mr. Jenrette, Mr. Schwarzman considered his extensive financial background and experience in a variety of senior leadership roles, including his roles at Donaldson, Lufkin & Jenrette, Inc. and The Equitable Companies Incorporated. With regard to Mr. Light, Mr. Schwarzman considered his distinguished career as a professor and dean at Harvard Business School with extensive knowledge and expertise of the investment management and capital markets industries. With regard to Mr. Mulrone, Mr. Schwarzman considered his distinguished career of government service, especially his service as the Prime Minister of Canada. With regard to Mr. Parrett, Mr. Schwarzman considered his significant experience, expertise and background with regard to accounting matters and his leadership role at Deloitte. With regard to Messrs. James, Hill and Gray, Mr. Schwarzman considered their leadership and extensive knowledge of our business and operations gained through their years of service at our firm and with regard to himself, Mr. Schwarzman considered his role as founder and long-time chief executive officer of our firm.

### Partnership Management and Governance

Our general partner, Blackstone Group Management L.L.C., manages all of our operations and activities. Our general partner is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business. Our partnership agreement provides that our general partner in managing our operations and activities is entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners, and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Blackstone Group Management L.L.C. is wholly-owned by our senior managing directors and controlled by our founder, Mr. Schwarzman. Our common unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of our common unitholders are limited as set forth in our partnership agreement and in the Delaware Limited Partnership Act.

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Blackstone Group Management L.L.C. does not receive any compensation from us for services rendered to us as our general partner. Our general partner is reimbursed by us for all expenses it incurs in carrying out its activities as general partner of the Partnership, including compensation paid by the general partner to its directors and the cost of directors and officers liability insurance obtained by the general partner.

The limited liability company agreement of Blackstone Group Management L.L.C. establishes a board of directors that is responsible for the oversight of our business and operations. Our general partner's board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Mr. Schwarzman will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner holding a majority in interest in our general partner. We refer to the board of directors of Blackstone Group Management L.L.C. as the "board of directors of our general partner." The board of directors of our general partner has a total of eight members including four members who are not officers or employees, and are otherwise independent, of Blackstone and its affiliates, including our general partner. These directors, namely Messrs. Jenrette, Light, Mulrone and Parrett, to whom we refer as independent directors, meet the independence standards established by the New York Stock Exchange and SEC rules.

The board of directors of our general partner has three standing committees: the audit committee, the conflicts committee and the executive committee.

**Audit Committee** . The audit committee consists of Messrs. Parrett (Chairman), Jenrette and Light. The purpose of the audit committee is to assist the board of directors of Blackstone Group Management L.L.C. in overseeing and monitoring (a) the quality and integrity of our financial statements, (b) our compliance with legal and regulatory requirements, (c) our independent registered public accounting firm's qualifications and independence and (d) the performance of our independent registered public accounting firm. The members of the audit committee meet the independence standards and financial literacy requirements for service on an audit committee of a board of directors pursuant to the New York Stock Exchange listing standards applicable to audit committees. The board of directors of our general partner has determined that Mr. Parrett is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. Mr. Parrett serves on the audit committees of four public companies, including Blackstone. The board of directors of our general partner determined at its January 2011 meeting that upon consideration of all relevant facts and circumstances known to the board of directors, Mr. Parrett's simultaneous service on the audit committees of four public companies does not impair his ability to effectively serve on the audit committee of the board of directors of our general partner. The audit committee has a charter which is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

**Conflicts Committee** . The conflicts committee consists of Messrs. Parrett, Jenrette and Light. The conflicts committee reviews specific matters that our general partner's board of directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of any conflict of interest submitted to it is fair and reasonable to the Partnership. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us and not a breach by us of any duties we may owe to our common unitholders. In addition, the conflicts committee may review and approve any related person transactions, other than those that are approved pursuant to our related person policy, as described under "Item 13. Certain Relationships and Related Transactions, and Director Independence", and may establish guidelines or rules to cover specific categories of transactions. The members of the conflicts committee meet the independence standards for service on an audit committee of a board of directors pursuant to federal and New York Stock Exchange rules relating to corporate governance matters.

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**Executive Committee** . The executive committee of the board of directors of Blackstone Group Management L.L.C. consists of Messrs. Schwarzman, James, Hill and Gray. The board of directors has delegated all of the power and authority of the full board of directors to the executive committee to act when the board of directors is not in session.

### Meetings

During 2012, our board of directors had four meetings, and our audit committee had twelve meetings. Each of our directors in 2012 attended all of the meetings of the board of directors and none of our directors attended fewer than 92% of the aggregate number of meetings of each of the committees of the board on which the director served.

### Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics and a Code of Ethics for Financial Professionals, which apply to our principal executive officer, principal financial officer and principal accounting officer. Each of these codes is available on our internet website at <http://ir.blackstone.com/governance.cfm>. We intend to disclose any amendment to or waiver of the Code of Ethics for Financial Professionals and any waiver of our Code of Business Conduct and Ethics on behalf of an executive officer or director either on our Internet website or in an 8-K filing.

### Corporate Governance Guidelines

The board of directors of our general partner has a governance policy, which addresses matters such as the board of directors' responsibilities and duties and the board of directors' composition and compensation. The governance policy is available on our internet website at <http://ir.blackstone.com/governance.cfm>.

### Communications to the Board of Directors

The non-management members of our general partner's board of directors meet at least quarterly. The presiding director at these non-management board member meetings is Mr. Parrett. All interested parties, including any employee or unitholder, may send communications to the non-management members of our general partner's board of directors by writing to: The Blackstone Group L.P., Attn: Audit Committee, 345 Park Avenue, New York, New York 10154.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the executive officers and directors of our general partner, and persons who own more than ten percent of a registered class of the Partnership's equity securities to file initial reports of ownership and reports of changes in ownership with the SEC and furnish the Partnership with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from such persons that they were not required to file a Form 5 to report previously unreported ownership or changes in ownership, we believe that, with respect to the fiscal year ended December 31, 2012, such persons complied with all such filing requirements, with the exception of the following late filings due to administrative oversight: a Form 3 report on March 7, 2012 by Mr. Gray reflecting his appointment to the board of directors of our general partner; a Form 4 report on May 7, 2012 by Mr. Hill reflecting four gifts of common units by Mr. Hill, his spouse and personal vehicles owned by Mr. Hill; a Form 4 report on July 27, 2012 by each of Mr. Tosi, Ms. Solotar and Mr. Finley reflecting a grant of Blackstone Holdings partnership units under the 2007 Equity Incentive Plan; a Form 4 report on July 27, 2012 by Ms. Kathleen Skero reflecting four grants of common units under the 2007 Equity Incentive Plan; a Form 4 report on August 31, 2012 by Mr. Schwarzman reflecting a gift and a purchase of Blackstone Holdings partnership units between Mr. Schwarzman and personal vehicles owned by Mr. Schwarzman; a

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Form 5 report on February 14, 2013 by Mr. James reflecting the exchange of Blackstone Holdings partnership units for common units pursuant to an exchange agreement and a Form 5 report on February 14, 2013 by Ms. Skero reflecting two instances of withholding of common units from delivery to pay tax withholding obligations.

### ITEM 11. EXECUTIVE COMPENSATION

#### Compensation Discussion and Analysis

##### *Overview of Compensation Philosophy and Program*

The intellectual capital collectively possessed by our senior managing directors (including our named executive officers) and other employees is the most important asset of our firm. We invest in people. We hire qualified people, train them, encourage them to provide their best thinking to the firm for the benefit of the investors in our funds and our advisory clients, and compensate them in a manner designed to retain and motivate them and align their interests with those of the investors in the funds we manage and the clients we advise.

Our overriding compensation philosophy for our senior managing directors and certain other employees is that compensation should be composed primarily of (a) annual cash payments tied to the performance of the applicable business unit(s) in which such employee works, (b) performance interests (comprised of carried interest and incentive fee interests) tied to the performance of the investments made by the funds in the business unit in which such employee works or for which he or she has responsibility, (c) deferred equity awards reflecting the value of our common units and (d) additional cash payments tied to extraordinary performance of such employee or other circumstances (for example, if there has been a change of role or responsibility). We believe base salary should represent a significantly lesser component of total compensation. We believe the appropriate combination of annual cash payments and performance interests or deferred equity awards encourages our senior managing directors and other employees to focus on the underlying performance of our investment funds and objectives of our advisory clients, as well as the overall performance of the firm and interests of our common unitholders. To that end, the primary form of compensation to our senior managing directors and other employees who work in our carry fund operations is generally a combination of annual cash payments related to the performance of those carry fund operations, carried interest or incentive fee interests, and deferred equity awards. Along the same lines, the primary form of compensation to our senior managing directors and other employees who do not work in our carry fund operations is generally a combination of annual cash payments tied to the performance of the applicable business unit in which such employee works and deferred equity awards which are generally a prescribed percentage of their annual cash payments under our Deferred Compensation Plan.

Employees at higher total compensation levels are generally targeted to receive a greater percentage of their total compensation payable in participation in performance interests and deferred equity awards and a lesser percentage in cash compared to employees who are paid less. We believe that the proportion of compensation that is “at risk” (that is, performance interests and deferred equity awards) should increase as an employee’s level of responsibility rises. In general, our named executive officers with the highest level of responsibility have the lowest percentage of their compensation fixed in the form of base salary and the highest percentage of their compensation at risk.

Our compensation program includes significant elements that discourage excessive risk taking and aligns the compensation of our employees with the long-term performance of the firm. For example, notwithstanding the fact that we accrue compensation for the Performance Plans (as defined below) related to our carry funds as increases in the carrying value of the portfolio investments are recorded in those carry funds, we only actually make cash payments related to carried interest to our employees when profitable investments have been realized and cash is distributed first to the investors in our funds, followed by the firm and only then to employees of the firm. Moreover, if a carry fund fails to achieve specified investment returns due to diminished performance of later investments, our Performance Plans entitle us to “clawback” carried interest payments previously made to an employee for the benefit of the limited partner investors in that fund, and we escrow a portion of all carried interest payments made to employees to help fund their potential future “clawback” obligations, all of which

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further discourages excessive risk-taking by our employees. Similarly, for our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period. In addition, and as noted below with respect to our named executive officers, the requirement that we have our professional employees invest in certain of the funds they manage directly aligns the interests of our professionals and our investors. In most cases, these investments represent a significant percentage of employees' after-tax compensation. Lastly, because our deferred equity awards have significant vesting provisions, the actual amount of compensation realized by the recipient will be tied directly to the long-term performance of our common units.

We believe our current compensation and benefit allocations for senior professionals are best in class and are consistent with companies in the alternative asset management and financial advisory industries. We do not generally rely on compensation surveys or compensation consultants. Our senior management periodically reviews the effectiveness and competitiveness of our compensation program, and such reviews may in the future involve the assistance of independent consultants.

*Personal Investment Obligations*. As part of our compensation philosophy and program, we require our named executive officers to personally invest their own capital in and alongside the funds that we manage. We believe that this strengthens the alignment of interests among our executive officers and the investors in those investment funds. (See Item 13. Certain Relationships and Related Transactions, and Director Independence—Side-By-Side and Other Investment Transactions.) In determining compensation for our named executive officers, we do not take into account the gains or losses attributable to the personal investments by our named executive officers in our investment funds.

We also require each of our named executive officers to hold at least 25% of their vested units throughout their employment with the firm and thereafter until the expiration of the covenants included in their respective non-competition and non-solicitation agreements, which are described below. We believe the continued ownership by our named executive officers of significant amounts of our equity through their direct and indirect interests in the Blackstone Holdings partnerships affords significant alignment of interests with our common unitholders.

### *Compensation Elements for Named Executive Officers*

The key elements of the compensation of the executive officers listed in the tables below ("named executive officers") for 2012 were base compensation, which is composed of salary, cash bonus and equity-based compensation, and performance compensation, which is composed of carried interest and incentive fee allocations:

1. Base Salary. Each named executive officer received a \$350,000 annual base salary in 2012, which equals the total yearly partnership drawings that were received by each of our senior managing directors prior to our initial public offering in 2007. In keeping with historical practice, we continue to pay this amount as a base salary.

2. Annual Cash Payments / Deferred Equity Awards. Since our initial public offering, Mr. Schwarzman has not received any compensation other than the \$350,000 annual salary described above and the actual realized carried interest gain distributions or incentive fees he may receive in respect of his participation in the carried interest or incentive fees earned from our funds through our Performance Plans described below. We believe that having Mr. Schwarzman's compensation largely based on ownership of a portion of the carried interest or incentive fees earned from our funds aligns his interests with those of the investors in our funds and our common unitholders.

Each of our named executive officers other than Mr. Schwarzman received annual cash payments in 2012 in addition to their base salary. These cash payments included participation interests in the earnings of the firm's various investment and advisory businesses. Mr. Hill, who has primary responsibility for Hedge Fund Solutions,

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our funds of hedge funds operation, also received cash payments that were based upon the performance of that business. Indicative participation interests for each year were disclosed to a named executive officer at the beginning of such year and represented estimates of the expected percentage participation that such named executive officer may have had in the relevant business unit(s)' earnings for that same year. However, the ultimate cash payments paid to the named executive officers at the end of the year in respect of their participation interests were determined in the discretion of Mr. Schwarzman, in consultation with Mr. James, as described below. Earnings for a business unit are calculated based on the annual operating income of that business unit and are generally a function of the performance of such business unit, which is evaluated by Mr. Schwarzman and subject to modification by Mr. Schwarzman or by the firm in its sole discretion. The ultimate cash payment amounts were based on (a) the prior and anticipated performance of the named executive officer, (b) the prior and anticipated performance of the segments and product lines in which the officer serves and for which he has responsibility, and (c) the estimated participation interests given to the officer at the beginning of the year. We make annual cash payments in the first quarter of the ensuing year to reward individual performance for the prior year. The ultimate cash payments that are made are fully discretionary as further discussed below under “—Determination of Incentive Compensation”.

Certain key personnel participate in our Deferred Compensation Plan. For 2012, Mr. Hill was the only named executive officer to participate in our Deferred Compensation Plan. The Deferred Compensation Plan provides for the automatic, mandatory deferral of a portion of each participant's annual cash payment. The portion deferred is prescribed under the Deferred Compensation Plan. By deferring a portion of a participant's compensation for up to four years, the Deferred Compensation Plan acts as an employment retention mechanism and thereby enhances the alignment of interests between such participant and the firm. (See “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Deferred Compensation Plan”.) Many asset managers that are public companies utilize deferred compensation plans as a means of retaining and motivating their professionals, and we believe that it is in the interest of our unitholders to do the same for our personnel. On January 9, 2013, Mr. Hill received an equity award under the Deferred Compensation Plan of 411,512 deferred restricted common units in respect of his service in 2012, which was approximately equal to (and paid in lieu of) 40% of the annual cash payment that he would have otherwise been paid, as described below. This award is reflected in Mr. Hill's 2012 stock awards in the Summary Compensation Table and in the Grants of Plan-Based Awards in 2012 table.

In 2012, Mr. Tosi received a discretionary award of 61,360 Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan in respect of his service in 2011. This award is reflected in his 2012 stock awards in the Summary Compensation Table. In 2012, Ms. Solotar received a discretionary equity award of 40,907 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan in respect of her service in 2011. This award is reflected in her 2012 stock awards in the Summary Compensation Table.

3. Participation in Performance Fees. During 2012, all of our named executive officers participated in the carried interest of our carry funds or the incentive fees of our funds that pay incentive fees through their participation interests in the carry or incentive fee pools generated by these funds. We refer to these pools and employee participation therein as our “Performance Plans” and payments made thereunder as performance payments. Because the aggregate amount of performance payments payable through our Performance Plans is directly tied to the performance of the funds, we believe this fosters a strong alignment of interests among the investors in those funds and these named executive officers, and therefore benefits our unitholders. In addition, most alternative asset managers, including several of our competitors, use participation in carried interest or incentive fees as a central means of compensating and motivating their professionals, and we believe that we must do the same in order to attract and retain the most qualified personnel. For purposes of our financial statements, we are treating the income allocated to all our personnel who have participation interests in the carried interest or incentive fees generated by our funds as compensation, and the amounts of carried interest and incentive fees earned by named executive officers are reflected as “All Other Compensation” in the Summary Compensation Table. The percentage participation of named executive officers in our Performance Plans varies by year, investment fund and, with respect to each carry fund, may vary by investment. The percentage

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participation for each named executive officer is established in January. In addition, certain of our employees, including our named executive officers, may participate in profit sharing initiatives relating to certain Blackstone firm investments and may receive allocations of investment income from these investments, although no such investment income has yet been realized.

(a) *Carried Interest.* Carried interest cash distributions to our named executive officers and other employees who participate in our Performance Plans relating to our carry funds depends on the realized proceeds and timing of the cash realizations of the investments owned by the carry funds in which they participate. For our carry funds, carried interest distributions for the named executive officer's participation interests are generally made to the named executive officer following the actual realization of the investment, although a portion of such carried interest is held back by the firm in respect of any future "clawback" obligation related to the fund. In allocating participation interests in the carry pools, we have not historically taken into account or based such allocations on any prior or projected triggering of any "clawback" obligation related to any fund. To the extent any "clawback" obligation were to be triggered, carried interest previously distributed to a named executive officer would have to be returned to the limited partners of such fund, thereby reducing the named executive officer's overall compensation for any such year. Moreover, because a carried interest recipient (including Blackstone itself) may have to fund more than his or her respective share of a "clawback" obligation under the governing documents (generally, up to an additional 50%), there is the possibility that the compensation paid to a named executive officer for any given year could be significantly reduced or even negative in the event a "clawback" obligation were to arise.

Participation in carried interest generated by our carry funds for all participating named executive officers other than Mr. Schwarzman is subject to vesting. Vesting serves as an employment retention mechanism and thereby enhances the alignment of interests between a participant in our Performance Plans and the firm. Each participating named executive officer (other than Mr. Schwarzman) vests in 25% of the carried interest related to an investment immediately upon the closing of the investment by a carry fund with the remainder vesting in equal installments on the first through third anniversary of the closing of that investment (unless an investment is realized prior to the expiration of such three-year anniversary, in which case such executive officer is deemed 100% vested in the proceeds of such realizations). We believe that vesting of carried interest participation enhances the stability of our senior management team and provides greater incentives for our named executive officers to remain at the firm. Due to his unique status as a founder and the long-time chief executive officer of our firm, Mr. Schwarzman vests in 100% of his carried interest participation related to any investment by a carry fund upon the closing of that investment.

(b) *Incentive Fees.* Cash distributions of incentive fees to our named executive officers and other employees who participate in our Performance Plans relating to the funds that pay incentive fees depends on the performance of the investments owned by those funds in which they participate. For our investment funds that pay incentive fees, those incentive fees are only paid to the firm and employees of the firm to the extent an applicable fund's portfolio of investments has profitably appreciated in value (in most cases above a specified level) during the applicable period and following the calculation of the profit split (if any) between the fund's general partner or investment adviser and the fund's investors, which occurs once a year (generally December 31 or June 30 of each year).

4. Other Benefits. Upon the consummation of our initial public offering in June 2007, we entered into a founding member agreement with our founder, Mr. Schwarzman, which provides specified benefits to him following his retirement. (See "—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Schwarzman Founding Member Agreement".) Mr. Schwarzman is provided certain security services, including home security systems and monitoring, personal and related security services. These security services are provided for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal benefits for Mr. Schwarzman. Nevertheless, the expenses associated with these security services are reflected in the "All Other Compensation" column of the Summary Compensation Table below.

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### *Determination of Incentive Compensation*

As our founder, Mr. Schwarzman sets his own compensation and reserves final approval of each named executive officer's compensation, based in large part on recommendations from Mr. James, other than with respect to Mr. James's own compensation. For 2012, these decisions were based primarily on Mr. Schwarzman's and Mr. James's assessment of such named executive officer's individual performance, operational performance for the segments or product lines in which the officer serves or for which he has responsibility, and the officer's potential to enhance investment returns for the investors in our funds and service to our advisory clients, and to contribute to long-term unitholder value. In evaluating these factors, Mr. Schwarzman, in consultation with Mr. James, relied upon his judgment to determine the ultimate amount of a named executive officer's annual cash payment and participation in carried interest and incentive fees that was necessary to properly induce the named executive officer to seek to achieve our objectives and reward a named executive officer in achieving those objectives over the course of the prior year. Key factors that Mr. Schwarzman, in consultation with Mr. James, considered in making such determinations include: prior and anticipated performance compared to the operational and strategic goals established for the named executive officer; the nature, scope and level of responsibilities; the compensation of individuals with similar responsibilities at comparable firms; and contribution to the firm's commitment to create and maintain a fiduciary culture in which the interests of the investors in our funds and the objectives of our advisory clients are paramount. For 2012, Mr. Schwarzman, in consultation with Mr. James, also considered each named executive officer's prior-year annual cash payments, indicative participation interests disclosed to the named executive officer at the beginning of the year, his allocated share of performance interests through participation in our Performance Plans, the appropriate balance between incentives for long-term and short-term performance, and the compensation paid to the named executive officer's peers within the firm.

### *Minimum Retained Ownership Requirements*

The minimum retained ownership requirements for our named executive officers are described below under “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Terms of Blackstone Holdings Partnership Units—Minimum Retained Ownership Requirements and Transfer Restrictions for Named Executive Officers.”

### **Compensation Committee Report**

The board of directors of our general partner does not have a compensation committee. The executive committee of the board of directors identified below has reviewed and discussed with management the foregoing Compensation Discussion and Analysis and, based on such review and discussion, has determined that the Compensation Discussion and Analysis should be included in this annual report.

*Stephen A. Schwarzman, Chairman*  
*Hamilton E. James*  
*J. Tomilson Hill*  
*Jonathan D. Gray*

### **Compensation Committee Interlocks and Insider Participation**

As described above, we do not have a compensation committee. Our founder Mr. Schwarzman makes all such compensation determinations in consultation with Mr. James. For a description of certain transactions between us and Mr. Schwarzman, see Item 13. Certain Relationships and Related Transactions, and Director Independence.



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### Summary Compensation Table

The following table provides summary information concerning the compensation of our Chief Executive Officer, our Chief Financial Officer and each of our three other most highly compensated employees who served as executive officers at December 31, 2012, for services rendered to us during 2012, 2011 and 2010. These individuals are referred to as our named executive officers in this annual report.

Name and Principal Position	Year	Salary	Bonus (a)	Stock Awards (b)	All Other Compensation (c)	Total
Stephen A. Schwarzman Chairman and Chief Executive Officer	2012	\$350,000	\$ —	\$ —	\$ 8,064,804	\$ 8,414,804
	2011	\$350,000	\$ —	\$ —	\$ 4,609,445	\$ 4,959,445
	2010	\$350,000	\$ —	\$ —	\$ 2,475,766	\$ 2,825,766
Hamilton E. James President Chief Operating Officer	2012	\$350,000	\$30,127,889	\$ —	\$ 2,796,035	\$33,273,924
	2011	\$350,000	\$26,193,619	\$ —	\$ 1,652,811	\$28,196,430
	2010	\$350,000	\$23,544,962	\$ —	\$ 850,917	\$24,745,879
J. Tomilson Hill Vice Chairman	2012	\$350,000	\$ 7,174,654	\$ 6,119,184	\$ 34,615	\$13,678,453
	2011	\$350,000	\$ 4,821,378	\$ 7,611,454	\$ 3,057	\$12,785,889
	2010	\$350,000	\$ 7,362,500	\$ 8,047,052	\$ (13,345)	\$15,746,207
Laurence A. Tosi Chief Financial Officer	2012	\$350,000	\$ 6,359,759	\$ 801,975	\$ 731,535	\$ 8,243,269
	2011	\$350,000	\$ 5,557,426	\$ 5,441,075	\$ 314,290	\$11,662,791
	2010	\$350,000	\$ 4,650,000	\$ 608,064	\$ 62,822	\$ 5,670,886
Joan Solotar Head of External Relations and Strategy	2012	\$350,000	\$ 3,525,855	\$ 534,654	\$ 119,226	\$ 4,529,735
	2011	\$350,000	\$ 3,244,455	\$ —	\$ 40,077	\$ 3,634,532

(a) The amounts reported in this column reflect the annual cash payments made for performance in the indicated year.

The amounts reported as “bonus” for Mr. Hill are shown net of his mandatory deferral pursuant to the Deferred Compensation Plan. The deferred amounts are as follows: \$4,855,431 for 2012, \$6,346,844 for 2011 and \$6,287,500 for 2010. For additional information on the Deferred Compensation Plan, see “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012 — Deferred Compensation Plan.”

(b) The reference to “stock” in this table refers to Blackstone Holdings Partnership Units or deferred restricted common units. The amounts reported in this column represent the grant date fair value of stock awards granted for financial statement reporting purposes in accordance with accounting principles generally accepted in the United States of America (“GAAP”), pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 15. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in Part II. Item 8. Financial Statements and Supplementary Data.

Mr. Hill received the following deferred equity awards for 2012, 2011 and 2010 performance pursuant to the Deferred Compensation Plan. On January 9, 2013, Mr. Hill received 411,512 deferred restricted common units (of which 329,209 units represent the bonus deferral amount with an aggregate grant date fair value of \$4,957,066, and 82,303 units represent the premium award equal to 25% of the deferral amount paid, with a grant date fair value of \$1,162,118). On January 12, 2012, Mr. Hill received 534,408 deferred restricted common units (of which 445,340 units represent the bonus deferral amount with an aggregate grant date fair value of \$6,378,753, and 89,068 units represent the premium award equal to 20% of the deferral amount paid, with a grant date fair value of \$1,232,701). On January 26, 2011, Mr. Hill received 541,439 deferred restricted common units (of which 451,199 units represent the bonus deferral amount with an aggregate grant date fair value of \$6,738,572, and 90,240 units represent the premium award equal to 20% of the deferral amount paid with a grant date fair value of \$1,308,480). The grant date fair value of the

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stock award reflecting the deferred bonus amount is computed in accordance with GAAP and generally differs from the dollar amount of the portion of the bonus that is required to be deferred under the Deferred Compensation Plan.

For additional information on the Deferred Compensation Plan, see “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Deferred Compensation Plan.”

In 2012, 2011 and 2010, Mr. Tosi received a discretionary equity award of, respectively, 61,360, 344,154 and 50,000 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan, in each case reflecting his performance in the prior year. In 2012, Ms. Solotar received a discretionary equity award of 40,907 deferred restricted Blackstone Holdings Partnership Units under the 2007 Equity Incentive Plan reflecting her performance in the prior year.

- (c) Amounts included for 2012, 2011 and 2010 represent cash payments in respect of carried interest or incentive fee allocations relating to our Performance Plans to the named executive officers in 2012, 2011 and 2010, respectively. We have determined to present compensation relating to carried interest and incentive fees within the Summary Compensation Table in the year in which such compensation is earned (that is, is actually received or receivable) by the named executive officer under the terms of the relevant Performance Plan. This compensation is generally earned in the same year in which such compensation is actually received by such named executive officer, although the named executive officer may in limited circumstances receive the compensation subsequent to the year in which it was earned (for example, it becomes payable at the end of 2011 but is paid in 2012). Accordingly, the amounts presented in the table differ from the compensation expense recorded by us on an accrual basis for such year in respect of carried interest and incentive fees allocable to a named executive officer, which accrued amounts for 2012 are separately disclosed in this footnote to the Summary Compensation Table. We believe that the presentation of the actual amounts of carried interest- and incentive fee-related compensation earned by a named executive officer during the year, instead of the amounts of compensation expense we have recorded on an accrual basis, most appropriately reflects the actual compensation received by the named executive officer and represents the amount most directly aligned with the named executive officer’s actual performance. By contrast, the amount of compensation expense accrued in respect of carried interest and incentive fees allocable to a named executive officer can be highly volatile from year to year, with amounts accrued in one year being reversed in a following year, and vice versa, causing such amounts to be less useful as a measure of the compensation actually earned by a named executive officer in any particular year.

To the extent compensation expense recorded by us on an accrual basis in respect of carried interest or incentive fee allocations (rather than cash payments) were to be included for 2012, the amounts would be \$19,723,252 for Mr. Schwarzman, \$7,717,374 for Mr. James, \$17,347 for Mr. Hill, \$1,642,608 for Mr. Tosi and \$393,121 for Ms. Solotar. For financial statement reporting purposes, the accrual of compensation expense is equal to the amount of carried interest and incentive fees related to performance fee revenues as of the last day of the relevant period as if the performance fee revenues in the funds generating such carried interest or incentive fees were realized as of the last day of the relevant period.

Mr. Hill did not participate in our performance plans in 2011 and 2010. The amounts reflected in “All Other Compensation” for Mr. Hill in 2011 and 2010 represent a combination of residual proceeds received in respect of pre-IPO transactions and clawback in respect of carried interest received in prior years. The \$(13,345) for Mr. Hill in 2010 consists primarily of a clawback on carried interest received in prior years that he was required to pay.

With the exception of \$86,370, \$85,891 and \$149,138 of expenses related to security services for Mr. Schwarzman in 2012, 2011 and 2010, respectively, perquisites and other personal benefits to the named executive officers were less than \$10,000 and information regarding perquisites and other personal benefits has therefore not been included. As noted above under “—Compensation Discussion and Analysis—Compensation Elements for Named Executive Officers—Other Benefits,” we consider the expenses for security services for Mr. Schwarzman to be for our benefit, and the board of directors of our general partner considers the related expenses to be appropriate business expenses rather than personal

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benefits for Mr. Schwarzman. Mr. Schwarzman makes business and personal use of a car and driver and he and members of his family also make business and personal use of an airplane in which we have a fractional interest and in each case he bears the full cost of such personal usage. In addition, certain Blackstone personnel administer personal matters for Mr. Schwarzman and he bears the full incremental cost to us of such personnel. Mr. James makes occasional personal use of an airplane in which we have a fractional interest and he bears the full cost of such personal usage. There is no incremental expense incurred by us in connection with the use of any car and driver, airplane or personnel by either of Messrs. Schwarzman or James, as described above.

During 2012, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$0.8 million to Mr. Schwarzman, \$0.1 million to Mr. James and \$0.1 million to Mr. Hill. During 2011, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$74.0 million to Mr. Schwarzman, \$0.1 million to Mr. James and \$10.3 million to Mr. Hill. During 2010, cash distributions to our named executive officers in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization were \$2.5 million to Mr. Schwarzman, \$0.1 million to Mr. James and \$0.3 million to Mr. Hill. During 2012, 2011 and 2010, Mr. Tosi and Ms. Solotar did not receive cash distributions in respect of Blackstone legacy funds and investments that were not contributed to Blackstone Holdings pursuant to the reorganization.

### Grants of Plan-Based Awards in 2012

The following table provides information concerning unit awards granted in, or (for Mr. Hill) with respect to, 2012 to our named executive officers:

<u>Name</u>	<u>Grant Date</u>	<u>All Other Stock Awards: Number of Shares of Stock or Units (a)</u>	<u>Grant Date Fair Value of Stock and Option Awards (a)</u>
Stephen A. Schwarzman		—	\$ —
Hamilton E. James		—	\$ —
J. Tomilson Hill	1/9/2013	329,209(b)	\$4,957,066
	1/9/2013	82,303(c)	\$1,162,118
Laurence A. Tosi	7/1/2012	61,360(d)	\$ 801,975
Joan Solotar	7/1/2012	40,907(d)	\$ 534,654

- (a) The references to “stock” or “shares” in this table refer to deferred Blackstone Holdings Partnership Units or our deferred restricted common units.
- (b) Represents deferred restricted common units granted under Deferred Compensation Plan for 2012 performance. See “—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Deferred Compensation Plan.” On January 12, 2012, Mr. Hill was granted 445,340 deferred restricted common units (with a grant date fair value of \$6,378,753) under the Deferred Compensation Plan for 2011 performance. This grant is reflected in the “Stock Awards” column of the Summary Compensation Table in 2011.
- (c) Represents the premium award in respect of the deferred restricted common units grant made in respect of Mr. Hill’s 2012 performance under the Deferred Compensation Plan. On January 12, 2012, Mr. Hill was granted 89,068 deferred restricted common units (with a grant date fair value of \$1,232,701) as the premium award in respect of his grant under the Deferred Compensation Plan for 2011 performance. This grant is reflected in the “Stock Awards” column of the Summary Compensation Table in 2011.
- (d) Represents deferred restricted Blackstone Holdings Partnership Units granted under our 2007 Equity Incentive Plan and reflects 2011 performance.

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### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012

#### *Terms of Blackstone Holdings Partnership Units*

Our pre-IPO owners, including our named executive officers other than Mr. Tosi and Ms. Solotar, received Blackstone Holdings Partnership Units in the reorganization in exchange for the contribution of their equity interests in our operating subsidiaries to Blackstone Holdings. Each of Mr. Tosi and Ms. Solotar received grants of Blackstone Holdings Partnership Units following the commencement of their employment with us under our 2007 Equity Incentive Plan. Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings Partnerships, these partnership units may be exchanged for our common units as described under “Item 13. Certain Relationships and Related Transactions, and Director Independence—Exchange Agreement” below.

*Vesting Provisions*. The Blackstone Holdings Partnership Units received by our named executive officers (other than Mr. Tosi) in the reorganization have the following vesting provisions:

- 25% of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested, with the remaining 75% vesting, subject to Mr. Schwarzman’s continued employment, in equal installments on each anniversary of our initial public offering (June 21, 2007) over four years. All of the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for his interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested; and
- 25% of the Blackstone Holdings Partnership Units received by each of Messrs. James and Hill in the reorganization in exchange for the contribution of his equity interests in our operating subsidiaries were fully vested and none of the Blackstone Holdings Partnership Units received by Ms. Solotar upon her joining Blackstone were fully vested. In each case, the remaining units vest, subject to the named executive officer’s continued employment, in equal installments on each anniversary of our initial public offering over up to eight years (five years in Ms. Solotar’s case). All of the Blackstone Holdings Partnership Units received by Messrs. James and Hill in the reorganization in exchange for their interests in carried interest relating to investments made by our carry funds prior to the date of the contribution were fully vested.

The deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2008 under the 2007 Equity Incentive Plan are subject to the following vesting terms: (a) 100% of the Blackstone Holdings Partnership Units underlying the sign-on grant to Mr. Tosi (155,764 units) will vest on the fifth anniversary of the commencement date of his service with the firm and (b) the deferred restricted Blackstone Holdings Partnership Units underlying his make-whole grant (338,381 units) vested annually in varying increments over a four-year period. The 699,845 and 50,000 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi in 2009 and 2010, respectively, under the 2007 Equity Incentive Plan will vest in equal installments over five years on each anniversary of the grant date. The 344,154 and 206,493 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Ms. Solotar, respectively, in 2011 under the 2007 Equity Incentive Plan will vest on January 1, 2016. The 61,360 and 40,907 deferred restricted Blackstone Holdings Partnership Units granted to Mr. Tosi and Ms. Solotar, respectively, in 2012 under the 2007 Equity Incentive Plan will vest 20% on July 1, 2015, 30% on July 1, 2016 and 50% on July 1, 2017.

Each named executive officer other than Mr. Tosi (as described in “—Senior Managing Director Agreement with Mr. Tosi”) will forfeit all unvested partnership units once he is no longer in our employ, subject to our retirement provisions which would generally enable a named executive officer to vest in 50% of the then remaining unvested units in respect of a qualifying retirement. See “—Non-Competition and Non-Solicitation Agreements—Retirement.” A named executive officer who leaves our firm to accept specified types of positions in government service will continue to vest in units as if he or she had not left our firm during the period of government service. In addition, upon the death or permanent disability of a named executive officer, all of his or her unvested partnership units held at that time will vest immediately. Further, in the event of a change in control (defined in the Blackstone Holdings partnership agreements as the occurrence of any person becoming the

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general partner of The Blackstone Group L.P. other than a person approved by the current general partner), any Blackstone Holdings Partnership Units that are unvested will automatically be deemed vested as of immediately prior to such change in control.

All vested and unvested Blackstone Holdings Partnership Units (and our common units received in exchange for such Blackstone Holdings Partnership Units) held by a named executive officer will be immediately forfeited in the event he materially breaches any of his or her restrictive covenants set forth in the non-competition and non-solicitation agreement outlined under “Non-Competition and Non-Solicitation Agreements” or his or her service is terminated for cause.

All of our named executive officers are subject to the following minimum retained ownership requirements and transfer restrictions in respect of all Blackstone Holdings Partnership Units received by them as part of the reorganization or deferred restricted Blackstone Holdings Partnership Units or our deferred restricted common units received by them under the 2007 Equity Incentive Plan. We refer to these Blackstone Holdings Partnership Units and deferred restricted Blackstone Holdings Partnership Units as “subject units.”

*Minimum Retained Ownership Requirements* . While employed by us and generally for one year following the termination of employment, each of our named executive officers (except as otherwise provided below) will be required to continue to hold (and may not transfer) at least 25% of all vested subject units received by him or her. The requirement that one continue to hold at least 25% of vested units is subject to the qualification in Mr. Schwarzman’s case that in no event will he be required to hold units having a market value greater than \$1.5 billion. Subject units held by current and future personal planning vehicles beneficially owned by the families of a named executive officer are not deemed to be owned by these individuals for purposes of such minimum retained ownership requirements. Each of our named executive officers is in compliance with these minimum retained ownership requirements.

*Transfer Restrictions* . None of our named executive officers may transfer subject units at any time prior to December 31, 2013 other than pursuant to transactions or programs approved by our general partner.

This transfer restriction applies to sales, pledges of subject units, grants of options, rights or warrants to purchase subject units or swaps or other arrangements that transfer to another, in whole or in part, any of the economic consequences of ownership of the subject units other than as approved by our general partner. We expect that our general partner will approve pledges or transfers to personal planning vehicles beneficially owned by the families of our pre-IPO owners and charitable gifts, provided that the pledgee, transferee or donee agrees to be subject to the same transfer restrictions (except as specified above with respect to Mr. Schwarzman). Transfers to Blackstone are also exempt from the transfer restrictions.

The minimum retained ownership requirements and transfer restrictions set forth above will continue to apply generally for one year following the termination of employment of a named executive officer other than Mr. Schwarzman for any reason, except that the transfer restrictions set forth above will lapse upon death or permanent disability. All of the foregoing transfer restrictions will lapse in the event of a change in control (as defined above).

The Blackstone Holdings Partnership Units received by other Blackstone personnel in the reorganization and pursuant to the 2007 Equity Incentive Plan are also generally subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to our named executive officers other than Mr. Schwarzman, although non-senior managing directors are also generally subject to vesting in respect of a portion of the Blackstone Holdings Partnership Units received by such personnel in the reorganization in exchange for their interests in carried interest.

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### *Schwarzman Founding Member Agreement*

Upon the consummation of our initial public offering, we entered into a founding member agreement with Mr. Schwarzman. Mr. Schwarzman's agreement provides that he will remain our Chairman and Chief Executive Officer while continuing service with us and requires him to give us six months' prior written notice of intent to terminate service with us. The agreement provides that following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including that he will be permitted until the third anniversary of his retirement date to retain his current office and will be provided with a car and driver. Commencing on the third anniversary of his retirement date and continuing until the tenth anniversary thereof, we will provide him with an appropriate office if he so requests. Additionally, Mr. Schwarzman will be provided with an assistant and access to office services during the ten-year period following his retirement date.

Mr. Schwarzman will also continue to receive health benefits following his retirement until his death, subject to his continuing payment of the related health insurance premiums consistent with current policies. Additionally, before his retirement and during the ten-year period thereafter, Mr. Schwarzman and any foundations he may establish may continue to invest in our investment funds on a basis generally consistent with that of other partners.

### *Senior Managing Director Agreements*

Upon the consummation of our initial public offering, we entered into substantially similar senior managing director agreements with each of our named executive officers and other senior managing directors other than our founder and Mr. Tosi. Senior managing directors who have joined the firm after our initial public offering (including Mr. Tosi) have also entered into senior managing director agreements. The agreements generally provide that each senior managing director will devote substantially all of his or her business time, skill, energies and attention to us in a diligent manner. Each senior managing director will be paid distributions and benefits in amounts determined by Blackstone from time to time in its sole discretion. The agreements require us to provide the senior managing director with 90 days' prior written notice prior to terminating his or her service with us (other than a termination for cause). Additionally, the agreements require each senior managing director to give us 90 days' prior written notice of intent to terminate service with us and require the senior managing director to be placed on a 90-day period of "garden leave" following the senior managing director's termination of service (as further described under the caption "—Non-Competition and Non-Solicitation Agreements" below).

### *Senior Managing Director Agreement with Mr. Tosi*

In connection with the commencement of Mr. Tosi's employment with us in September 2008, we entered into a senior managing director agreement with him that included specific compensation terms. Those terms included his entitlement to three awards of deferred restricted Blackstone Holdings Partnership Units under our 2007 Equity Incentive Plan. The first award was a sign-on grant of 155,764 Blackstone Holdings Partnership Units, which was granted soon after the commencement of his employment with us. The second grant was a "make-whole" payment of 338,381 Blackstone Holdings Partnership Units, representing the value of compensation-related items from Merrill Lynch & Co., Inc. that Mr. Tosi forfeited as a result of his departure from that firm, which was granted soon after the commencement of his employment with the firm. The third grant of 699,845 Blackstone Holdings Partnership Units was in respect of a guaranteed equity grant for 2008 that was awarded on January 15, 2009. The unvested portion of Mr. Tosi's equity-based awards will be terminated once he is no longer a senior managing director of Blackstone, except that the then-outstanding but unvested portion of his awards will become fully vested if (a) his service with us is terminated by us without cause or as a result of his death or permanent disability or (b) there is a "change in control" (as defined in the partnership agreements of Blackstone Holdings). Mr. Tosi is generally subject to the same transfer restrictions and forfeiture terms with respect to his Blackstone Holdings Partnership Units as those that apply to the Blackstone Holdings Partnership Units held by the firm's other senior managing directors. The agreement also provides that Mr. Tosi will be permitted to invest in and alongside Blackstone's carry funds and in the firm's hedge funds as long as he serves as a senior managing director, subject to the same limitations on exclusions from management fees or

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incentive fees that are applicable to the firm's other senior managing directors. Mr. Tosi has also executed a senior managing director non-competition and non-solicitation agreement as part of the agreement. The terms of such non-competition and non-solicitation agreement are substantially the same as the terms included in the non-competition and non-solicitation agreements signed by the other senior managing directors.

### *Deferred Compensation Plan*

In 2007, we established our Deferred Compensation Plan (which we also refer to as our "Bonus Deferral Plan") for certain eligible employees of Blackstone and certain of its affiliates in order to provide such eligible employees with a pre-tax deferred incentive compensation opportunity and to enhance the alignment of interests between such eligible employees and Blackstone and its affiliates. The Deferred Compensation Plan is an unfunded, non-qualified deferred compensation plan which provides for the automatic, mandatory deferral of a portion of each participant's annual cash payment. In respect of the deferred portion of his or her annual cash payment, each participant receives deferral units which represent rights to receive in the future a specified amount of common units or Blackstone Holdings Partnership Units or other equity-based awards under our 2007 Equity Incentive Plan, subject to vesting provisions described below. The amount of each participant's annual cash payment which is deferred under the plan depends on the total amount of such participant's annual cash payment and for deferrals of 2012 annual cash payments was calculated on the basis set forth in the following table:

<u>Portion of Annual Cash Payment</u>	<u>Marginal Deferral Rate Applicable to Such Portion</u>	<u>Effective Deferral Rate for Entire Annual Bonus (a)</u>
\$0 – 100,000	0%	0.0%
\$100,001 – 200,000	15%	7.5%
\$200,001 – 500,000	20%	15.0%
\$500,001 – 750,000	30%	20.0%
\$750,001 – 1,250,000	40%	28.0%
\$1,250,001 – 2,000,000	45%	34.4%
\$2,000,001 – 3,000,000	50%	39.6%
\$3,000,001 – 4,000,000	55%	43.4%
\$4,000,001 – 5,000,000	60%	46.8%
\$5,000,000 +	65%	52.8%

(a) Effective deferral rates are shown for illustrative purposes only and are based on an annual cash payment equal to the maximum amount in the range shown in the far left column.

In addition, with respect to grants made prior to January 1, 2013, each plan participant is eligible to receive a premium award in an amount equal to 20% of his or her deferral amount paid, as detailed below, after a three-year period. With respect to grants made on or after January 1, 2013, each plan participant is eligible to receive a premium award in an amount equal to 25% of his or her deferral amount paid, as detailed below, after a four-year period. The deferral amount plus the premium award yields the total amount of deferral units that a participant is awarded for any given year.

Generally, deferral units are satisfied by delivery of our common units in equal annual installments over the vesting period, which is three years for grants made prior to January 1, 2013 and four years for grants made on or after January 1, 2013 (with no partial-year delivery). The entire premium portion of such deferral units, however, vests and is delivered at the end of such vesting period. Delivery of our common units is delayed (following the applicable vesting dates) until anticipated trading window periods to better facilitate the participant's liquidity to meet tax obligations. The delivery of the deferral units is subject to the participant not violating any of the provisions of his or her employment agreement, including specified restrictive covenants such as non-competition following termination of employment. The vesting of the premium portion of a participant's deferral units is also subject to continued employment of such participant through the end of the vesting period, with specified exceptions.

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At the end of each year, the Plan Administrator (as defined in the Deferred Compensation Plan) selects plan participants in its sole discretion and notifies such individuals that they have been selected to participate in the Deferred Compensation Plan for such year. Participation is mandatory for those employees selected by the Plan Administrator to be participants. An individual, if selected, may not decline to participate in the Deferred Compensation Plan and an individual who is not so selected may not elect to participate in the Deferred Compensation Plan. The selection of participants is made on an annual basis; an individual selected to participate in the Deferred Compensation Plan for a given year may not necessarily be selected to participate in a subsequent year.

Mr. Hill was our only named executive officer who participated in our Deferred Compensation Plan in 2012, but additional named executive officers may, at the discretion of the Plan Administrator, participate in 2013 or subsequent years.

### Outstanding Equity Awards at 2012 Fiscal Year End

The following table provides information regarding outstanding unvested equity awards made to our named executive officers as of December 31, 2012:

Name	Stock Awards (a)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	12,334,596	\$ 192,296,352
J. Tomilson Hill	5,174,306	\$ 80,667,431
Laurence A. Tosi	871,216	\$ 13,582,257
Joan Solotar	247,400	\$ 3,856,966

- (a) The references to “stock” or “shares” in this table refer to Blackstone Holdings Partnership Units and our deferred restricted common units. The vesting terms of these awards are described under the caption “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards” above.
- (b) The dollar amounts shown under this column were calculated by multiplying the number of unvested Blackstone Holdings Partnership Units or deferred restricted common units held by the named executive officer by the closing market price of \$15.59 per Blackstone common unit on December 31, 2012, the last trading day of 2012.

### Option Exercises and Stock Vested in 2012

The following table provides information regarding the number of outstanding initially unvested equity awards made to our named executive officers that vested during 2012:

Name	Stock Awards (a)	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (b)
Stephen A. Schwarzman	—	\$ —
Hamilton E. James	4,111,533	\$ 49,749,554
J. Tomilson Hill	1,903,840	\$ 24,068,946
Laurence A. Tosi	196,462	\$ 2,994,833
Joan Solotar	33,335	\$ 403,354

- (a) The references to “stock” or “shares” in this table refer to Blackstone Holdings Partnership Units and our deferred restricted common units.
- (b) The value realized on vesting is based on the closing market prices of our common units on the day of vesting.



### Potential Payments Upon Termination of Employment or Change in Control

Upon a change of control event where any person (other than a person approved by our general partner) becomes our general partner or a termination of employment because of death or disability, any unvested Blackstone Holdings Partnership Units or our common units held by any of our named executive officers will automatically be deemed vested as of immediately prior to such occurrence of such change of control or such termination of employment. Had such a change of control or such a termination of employment occurred on December 31, 2012, the last business day of 2012, each of our named executive officers would have vested in the following numbers of Blackstone Holdings Partnership Units or our common units, having the following values based on our closing market price of \$15.59 per Blackstone common unit on December 31, 2012: Mr. Schwarzman had no outstanding unvested units at December 31, 2012; Mr. James – 12,334,596 units with a value of \$192,296,352 ; Mr. Hill – 5,174,306 units with a value of \$80,667,431; Mr. Tosi – 871,216 units with a value of \$13,582,257 and Ms. Solotar – 247,400 units with a value of \$3,856,966.

In addition, upon the death or disability of any named executive officer who participates in the carried interest of our carry funds, the named executive officer will be deemed 100% vested in any unvested portion of carried interest in our carry funds.

In addition, pursuant to Mr. Schwarzman’s Founding Member Agreement described above under “Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2012—Schwarzman Founding Member Agreement,” following retirement, Mr. Schwarzman will be provided with specified retirement benefits, including an assistant during the ten-year period following his retirement and a car and driver during the three-year period following his retirement. As of December 31, 2012, the aggregate present value of these expected costs were \$0.8 million, for which approximately \$50 thousand, \$0.1 million and \$0.1 million were expensed for financial statement purposes in each of the years ended December 31, 2012, 2011 and 2010, respectively.

### Non-Competition and Non-Solicitation Agreements

Upon the consummation of our initial public offering, we entered into a non-competition and non-solicitation agreement with our founder, our other senior managing directors, most of our other professional employees and specified senior administrative personnel to whom we refer collectively as “Contracting Employees.” Contracting Employees who have joined the firm after our initial public offering, such as Mr. Tosi, have also executed non-competition and non-solicitation agreements. The following are descriptions of the material terms of each such non-competition and non-solicitation agreement. With the exception of the few differences noted in the description below, the terms of each non-competition and non-solicitation agreement are generally in relevant part similar.

*Full-Time Commitment* . Each Contracting Employee agrees to devote substantially all of his or her business time, skill, energies and attention to his or her responsibilities at Blackstone in a diligent manner. Our founder Mr. Schwarzman has agreed that our business will be his principal business pursuit and that he will devote such time and attention to the business of the firm as may be reasonably requested by us.

*Confidentiality* . Each Contracting Employee is required, whether during or after his or her employment with us, to protect and only use “confidential information” in accordance with strict restrictions placed by us on its use and disclosure. (Every employee of ours is subject to similar strict confidentiality obligations imposed by our Code of Conduct applicable to all Blackstone personnel.)

*Notice of Termination* . Each Contracting Employee is required to give us prior written notice of his or her intention to leave our employ—six months in the case of Mr. Schwarzman, 90 days for all of our other senior managing directors and between 30 and 60 days in the case of all other Contracting Employees.

*Garden Leave* . Upon his or her voluntary departure from our firm, a Contracting Employee is required to take a prescribed period of “garden leave.” The period of garden leave is 90 days for our non-founding senior managing directors and between 30 and 60 days for all other Contracting Employees. During this period the

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Contracting Employee will continue to receive some of his or her Blackstone compensation and benefits, but is prohibited from commencing employment with a new employer until the garden leave period has expired. The period of garden leave for each Contracting Employee will run coterminously with the non-competition Restricted Period that applies to him or her as described below. Our founder Mr. Schwarzman is subject to non-competition covenants but not garden leave requirements.

*Non-Competition* . During the term of employment of each Contracting Employee, and during the Restricted Period (as such term is defined below) immediately thereafter, he or she will not, directly or indirectly:

- engage in any business activity in which we operate, including any competitive business,
- render any services to any competitive business, or
- acquire a financial interest in or become actively involved with any competitive business (other than as a passive investor holding minimal percentages of the stock of public companies).

“Competitive business” means any business that competes, during the term of employment through the date of termination, with our business, including any businesses that we are actively considering conducting at the time of the Contracting Employee’s termination of employment, so long as he or she knows or reasonably should have known about such plans, in any geographical or market area where we or our affiliates provide our products or services.

*Non-Solicitation* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit any of our employees to leave their employment with us, or hire any such employee who was employed by us as of the date of his or her termination or who left employment with us within one year prior to or after the date of his or her termination. Additionally, each Contracting Employee may not solicit or encourage to cease to work with us any consultant or senior advisers that he or she knows or should know is under contract with us.

In addition, during the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she will not, directly or indirectly, in any manner solicit the business of any client or prospective client of ours with whom he or she, employees reporting to him or her, or anyone whom he or she had direct or indirect responsibility over had personal contact or dealings on our behalf during the three-year period immediately preceding his or her termination. Contracting Employees who are employed in our asset management businesses are subject to a similar non-solicitation covenant with respect to investors and prospective investors in our investment funds.

*Non-Interference and Non-Disparagement* . During the term of employment of each Contracting Employee, and during the Restricted Period immediately thereafter, he or she may not interfere with business relationships between us and any of our clients, customers, suppliers or partners. Each Contracting Employee is also prohibited from disparaging us in any way.

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*Restricted Period* . For purposes of the foregoing covenants, the “Restricted Period” will be:

<u>Covenant</u>	<u>Stephen A. Schwarzman</u>	<u>Other Senior Managing Directors</u>	<u>Other Contracting Employees</u>
<i>Non-competition</i>	Two years after termination of employment.	One year (six months for senior managing directors who are eligible to retire, as defined below) after termination of employment.	Between 90 days and six months after termination of employment.
<i>Non-solicitation of Blackstone employees</i>	Two years after termination of employment.	Two years after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-solicitation of Blackstone clients or investors</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.
<i>Non-interference with business relationships</i>	Two years after termination of employment.	One year after termination of employment.	Generally between six months and one year after termination of employment.

*Retirement* . Blackstone personnel are eligible to retire if they have satisfied either of the following tests: (a) one has reached the age of 65 and has at least five full years of service with our firm; or (b) one has reached the age of 50 and has at least five full years of service with our firm and the sum of his or her age plus years of service with our firm totals at least 65.

*Intellectual Property* . Each Contracting Employee is subject to customary intellectual property covenants with respect to works created, invented, designed or developed by him or her that are relevant to or implicated by his or her employment with us.

*Specific Performance* . In the case of any breach of the confidentiality, non-competition, non-solicitation, non-interference, non-disparagement or intellectual property provisions by a Contracting Employee, the breaching individual agrees that we will be entitled to seek equitable relief in the form of specific performance, restraining orders, injunctions or other equitable remedies.

### Director Compensation in 2012

No additional remuneration is paid to our employees for service as a director of our general partner. In 2012, each of our non-employee directors received an annual cash retainer of \$150,000 and a grant of deferred restricted common units equivalent in value to \$100,000, with a grant date fair value determined as described in footnote (a) to the first table below. An additional \$15,000 annual cash retainer was paid to the Chairman of the Audit Committee during 2012.

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The following table provides the director compensation for Mr. Gray and our non-employee directors for 2012:

Name	Fees Earned or	Stock Awards	Total
	Paid in Cash	(a) (b)	
Jonathan D. Gray (c)	\$ —	\$ —	\$ —
The Right Honorable Brian Mulroney	\$ 150,000	\$ 125,054	\$275,054
William G. Parrett	\$ 165,000	\$ 100,937	\$265,937
Richard Jenrette	\$ 150,000	\$ 119,510	\$269,510
Jay O. Light	\$ 150,000	\$ 101,097	\$251,097

- (a) The references to “stock” in this table refer to our deferred restricted common units. Amounts for 2012 represent the grant date fair value of stock awards granted in the year, computed in accordance with GAAP, pertaining to equity-based compensation. The assumptions used in determining the grant date fair value are set forth in Note 15. “Equity-Based Compensation” in the “Notes to Consolidated Financial Statements” in Part II. Item 8. Financial Statements and Supplementary Data. These deferred restricted common units vest, and the underlying Blackstone common units will be delivered, on the first anniversary of the date of grant, subject to the outside director’s continued service on the board of directors of our general partner.
- (b) Each of our non-employee directors was granted deferred restricted common units upon his appointment as a director. In 2012, in connection with the anniversary of his initial grant, each of the following directors was granted deferred restricted common units: Mr. Jenrette—7,847; Mr. Light—6,638 units; Mr. Mulroney—8,211 units; and Mr. Parrett—6,942 units. The amounts of our non-employee directors’ compensation were approved by the board of directors of our general partner upon the recommendation of our founder following his review of directors’ compensation paid by comparable companies.

The following table provides information regarding outstanding unvested equity awards made to our directors as of December 31, 2012:

Name	Stock Awards (1)	
	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (2)
The Right Honorable Brian Mulroney	8,211	\$ 128,009
William G. Parrett	6,942	\$ 108,226
Richard Jenrette	7,847	\$ 122,335
Jay O. Light	6,638	\$ 103,486

- (1) The references to “stock” or “shares” in this table refer to our deferred restricted common units.
- (2) The dollar amounts shown under this column were calculated by multiplying the number of unvested deferred restricted common units held by the director by the closing market price of \$15.59 per Blackstone common unit on December 31, 2012, the last trading day of 2012.
- (c) Mr. Gray is an employee and no additional remuneration is paid to him for service as a director of our general partner. Mr. Gray’s employee compensation is discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common units and Blackstone Holdings Partnership Units as of February 22, 2013 by:

- each person known to us to beneficially own 5% of any class of the outstanding voting securities of The Blackstone Group L.P.;
- each member of our general partner’s board of directors;

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- each of the named executive officers of our general partner; and
- all directors and executive officers of our general partner as a group.

The amounts and percentage of units beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of February 22, 2013. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise included, for purposes of this table, the principal business address for each such person is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

Name of Beneficial Owner	Common Units, Beneficially Owned		Blackstone Holdings Partnership Units Beneficially Owned (a)	
	Number	% of	Number	% of
<b>5% Unitholders:</b>				
Credit Suisse AG (b)	22,213,120	5%	—	—
FMR LLC (c)	26,062,389	6%	—	—
Waddell & Reed Financial, Inc. (d)	22,613,690	5%	—	—
<b>Directors and Executive Officers (e)</b>				
Stephen A. Schwarzman (f)(g)	—	—	231,924,793	43%
Hamilton E. James (g)	7,750,000	2%	30,680,300	6%
J. Tomilson Hill (g)	2,248,442	1%	14,645,085	3%
Laurence A. Tosi	—	—	505,180	*
Joan Solotar	11,694	*	158,614	*
Jonathan D. Gray (g)	—	—	40,585,300	8%
The Right Honorable Brian Mulroney	126,042	*	—	—
William G. Parrett	53,257	*	—	—
Richard Jenrette	21,154	*	—	—
Jay O. Light	22,194	*	—	—
All executive officers and directors as a group (11 persons)	10,232,783	2%	318,649,272	59%

\* Less than one percent

- (a) Subject to certain requirements and restrictions, the partnership units of Blackstone Holdings are exchangeable for common units of The Blackstone Group L.P. on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. See “Item 13. Certain Relationships and Related Transactions, and Director Independence—Exchange Agreement”. Beneficial ownership of Blackstone Holdings Partnership Units reflected in this table has not been also reflected as beneficial ownership of the common units of The Blackstone Group L.P. for which such units may be exchanged.
- (b) Reflects units beneficially owned by Credit Suisse AG based on the Schedule 13G filed by Credit Suisse on February 14, 2013. The address of Credit Suisse AG is Uetlibergstrasse 231, P.O. Box 900, CH 8070 Zurich, Switzerland.
- (c) Reflects units beneficially owned by FMR, LLC and its subsidiaries based on the Schedule 13G filed by FMR, LLC on February 14, 2013. The address of FMR, LLC is 82 Devonshire Street, Boston, Massachusetts 02109.

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- (d) Reflects units beneficially owned by Waddell & Reed Financial, Inc. and its subsidiaries based on the Schedule 13G filed by Waddell & Reed Investment Management Company and Ivy Investment Management Company as joint reporting persons on February 7, 2013. The address of Waddell & Reed Financial, Inc. is 6300 Lamar Avenue, Overland Park, Kansas 66202.
- (e) The units beneficially owned by the directors and executive officers reflected above do not include the following number of units that will be delivered to the respective individual more than 60 days after February 22, 2013: J. Tomilson Hill – 1,038,112 deferred restricted common units; Laurence A. Tosi – 953,311 deferred restricted Blackstone Holdings Partnership Units; Joan Solotar – 300,270 deferred restricted Blackstone Holdings Partnership Units; The Right Honorable Brian Mulroney – 8,211 deferred restricted common units; William G. Parrett – 6,942 deferred restricted common units; Richard Jenrette – 7,847 deferred restricted common units; Jay O. Light – 6,638 deferred restricted common units; and all other executive officers and directors as a group – 370,454 deferred restricted Blackstone Holdings Partnership Units.
- (f) On those few matters that may be submitted for a vote of the limited partners of The Blackstone Group L.P., Blackstone Partners L.L.C., an entity wholly-owned by our senior managing directors, holds a special voting unit in The Blackstone Group L.P. that provides it with an aggregate number of votes on any matter that may be submitted for a vote of our common unitholders that is equal to the aggregate number of vested and unvested Blackstone Holdings Partnership Units held by the limited partners of Blackstone Holdings on the relevant record date and entitles it to participate in the vote on the same basis as our common unitholders. Our senior managing directors have agreed in the limited liability company agreement of Blackstone Partners L.L.C. that our founder, Mr. Schwarzman, will have the power to determine how the special voting unit held by Blackstone Partners L.L.C. will be voted. Following the withdrawal, death or disability of Mr. Schwarzman (and any successor founder), this power will revert to the members of Blackstone Partners L.L.C. holding a majority in interest in that entity. The limited liability company agreement of Blackstone Partners L.L.C. provides that at such time as Mr. Schwarzman should cease to be a founding member, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of Blackstone Partners L.L.C. . If Blackstone Partners L.L.C. directs us to do so, we will issue special voting units to each of the limited partners of Blackstone Holdings, whereupon each special voting unitholder will be entitled to a number of votes that is equal to the number of vested and unvested Blackstone Holdings Partnership Units held by such special voting unitholder on the relevant record date.
- (g) The Blackstone Holdings Partnership Units shown in the table above for such named executive officers and directors include (a) the following units held for the benefit of family members with respect to which the named executive officer or director, as applicable, disclaims beneficial ownership: Mr. Schwarzman – 1,666,666 units held in various trusts for which Mr. Schwarzman is the investment trustee, Mr. James – 7,157,207 units held in a trust for which Mr. James and his brother are trustees (but Mr. James does not have or share investment control with respect to the units), Mr. Hill – 5,636,348 units held in various trusts for which Mr. Hill’s spouse is the investment trustee, and Mr. Gray – 4,566,437 units held in a trust for which Mr. Gray is the investment trustee, (b) the following units held in grantor retained annuity trusts for which the named executive officer or director, as applicable, is the investment trustee: Mr. Schwarzman – 3,085,447 units, and Mr. Hill – 1,799,774 units, and Mr. Gray – 6,911,534 units, and (c) the following units held by a corporation for which the named executive officer is a controlling shareholder: Mr. Schwarzman – 1,438,529 units. Mr. Schwarzman also directly, or through a corporation for which he is the controlling shareholder, beneficially owns an additional 364,278 partnership units in each of Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. In addition, with respect to Mr. Schwarzman, the above table excludes partnership units of Blackstone Holdings held by his children or in trusts for the benefit of his family as to which he has no voting or investment control.

In addition, Beijing Wonderful Investments, an investment vehicle established and controlled by the People’s Republic of China, holds 101,334,234 of our non-voting common units and may from time to time make open market purchases or sales of our voting common units.

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### Securities Authorized for Issuance under Equity Compensation Plans

The table set forth below provides information concerning the awards that may be issued under the 2007 Equity Incentive Plan as of December 31, 2012:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (b)
Equity Compensation Plans Approved by Security Holders	55,302,011	—	142,510,831
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>55,302,011</b>	<b>—</b>	<b>142,510,831</b>

- (a) Reflects the outstanding number of our deferred restricted common units and deferred restricted Blackstone Holdings Partnership Units granted under the 2007 Equity Incentive Plan as of December 31, 2012.
- (b) The aggregate number of our common units and Blackstone Holdings partnership units covered by the 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of our common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly-owned subsidiaries) minus (b) the aggregate number of our common units and Blackstone Holdings Partnership Units covered by the 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of our common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). As of January 1, 2013, pursuant to this formula, 163,217,431 units, which is equal to 0.15 times the number of our common units and Blackstone Holdings Partnership Units outstanding on December 31, 2012, were available for issuance under the 2007 Equity Incentive Plan. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by the 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Transactions with Related Persons

#### *Tax Receivable Agreements*

We used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the pre-IPO owners. In addition, holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly-owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. Blackstone Holdings I L.P. and Blackstone Holdings II L.P. have made an election under Section 754 of the Internal Revenue Code effective for each taxable year in which an exchange of partnership

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units for common units occurs, which may result in an adjustment to the tax basis of the assets of such Blackstone Holdings partnerships at the time of an exchange of partnership units. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of Blackstone's wholly-owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future. One of the subsidiaries of The Blackstone Group L.P. which is a corporate taxpayer has entered into a tax receivable agreement with holders of Blackstone Holdings Partnership Units that provides for the payment by the corporate taxpayer to such holders of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of these increases in tax basis and of certain other tax benefits related to our entering into tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreement. Additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayer and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayer would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreement. A limited partner of Blackstone Holdings may also elect to exchange his or her Blackstone Holdings Partnership Units in a tax-free transaction where the limited partner is making a charitable contribution. In such a case, the exchange will not result in an increase in the tax basis of the assets of Blackstone Holdings and no payments will be made under the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of our IPO and will continue until all such tax benefits have been utilized or expired, unless the corporate taxpayers exercise their right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement.

Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase and exchanges will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$364.6 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. On December 31, 2012, payments totaling \$34.2 million were made to certain pre-IPO owners in accordance with the tax receivable agreement and related to tax benefits we received for the 2011 taxable year. Those payments included payments of \$5,265,371 to Stephen A. Schwarzman and investment vehicles controlled by a relative of Mr. Schwarzman; \$1,111,883 to Hamilton E. James; \$514,370 to J. Tomilson Hill and a trust for which Mr. Hill is the investment trustee and \$14,671 to Laurence A. Tosi.

In addition, the tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the benefits arising from the increased tax deductions and tax basis and other similar benefits. Upon a subsequent actual exchange, any additional increase in tax deductions, tax basis and other similar benefits in excess of the amounts assumed at the change in control will also result in payments under the tax receivable agreement.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments



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that are received by an exchanging or selling holder of Blackstone Holdings Partnership Units, under the tax receivable agreement. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under a tax receivable agreement and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase the tax liability of a holder of Blackstone Holdings Partnership Units without giving rise to any rights of a holder of Blackstone Holdings Partnership Units to receive payments under any tax receivable agreements.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the corporate taxpayers will not be reimbursed for any payments previously made under a tax receivable agreement. As a result, in certain circumstances, payments could be made under a tax receivable agreement in excess of the corporate taxpayers' cash tax savings.

### ***Registration Rights Agreement***

In connection with the restructuring and IPO, we entered into a registration rights agreement with our pre-IPO owners pursuant to which we granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act common units delivered in exchange for Blackstone Holdings Partnership Units or common units (and other securities convertible into or exchangeable or exercisable for our common units) otherwise held by them. In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the registration rights agreement. Under the registration rights agreement, we agreed to register the exchange of Blackstone Holdings Partnership Units for common units by our holders of Blackstone Holdings Partnership Units. In June 2008, we filed a registration statement on Form S-3 with the Securities and Exchange Commission to cover future issuances from time to time of up to 818,008,105 common units to holders of Blackstone Holdings partnership units upon exchange of up to an equal number of such Blackstone Holdings partnership units. In addition, our founder, Stephen A. Schwarzman, has the right to request that we register the sale of common units held by holders of Blackstone Holdings Partnership Units an unlimited number of times and may require us to make available shelf registration statements permitting sales of common units into the market from time to time over an extended period. In addition, Mr. Schwarzman has the ability to exercise certain piggyback registration rights in respect of common units held by holders of Blackstone Holdings Partnership Units in connection with registered offerings requested by other registration rights holders or initiated by us.

### ***iLevel Transaction***

Blackstone and Swift River Investments, Inc., a private family investment firm which manages capital on behalf of our President, Chief Operating Officer and Director, Hamilton E. James, his brothers, David R. James and Benjamin B. James, and members of their families, are the largest shareholders in iLevel Solutions LLC, a business that provides private equity software and advanced portfolio monitoring software acquisitions to private equity firms and other institutions ("iLevel"), with approximately 23.4% and 26.9% equity interests, respectively. While Mr. Hamilton E. James has a majority economic interest in Swift River Investments, the day-to-day business of Swift River Investments is managed by Mr. David R. James and Mr. Benjamin B. James.

### ***Compensation of Jonathan D. Gray***

On February 24, 2012, Jonathan D. Gray was appointed to the board of directors of Blackstone Group Management L.L.C., the general partner of The Blackstone Group L.P. Mr. Gray joined Blackstone in 1992 and is a Senior Managing Director and Global Head of Real Estate. For 2012, Mr. Gray received a base salary of \$350,000 and an annual cash bonus payment of \$28,661,154. The cash payment was based upon the performance of the Real Estate segment, including the contribution of all current and past funds within the segment dating back to before the IPO. The ultimate cash payment to Mr. Gray was, however, determined in the discretion of Mr. Schwarzman in consultation with Mr. James.

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Mr. Gray also participated in the performance fees of our funds, consisting of carried interest in our carry funds and incentive fees in our funds that pay incentive fees. The compensation paid to Mr. Gray in respect of carried interest in our carry funds primarily relates to Mr. Gray's participation in the real estate funds (which were formed both before and after the IPO). The amount of cash payments in respect of carried interest or incentive fee allocations to Mr. Gray for 2012 was \$8,185,426. See "Executive Compensation—Compensation Elements for Named Executive Officers" in this report for additional discussion of the elements of our compensation program.

### Blackstone Holdings Partnership Agreements

As a result of the reorganization and the IPO, The Blackstone Group L.P. became a holding partnership and, through wholly-owned subsidiaries, held equity interests in the five holdings partnerships (i.e., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.). On January 1, 2009, in order to simplify our structure and ease the related administrative burden and costs, we effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to the five holding partnerships prior to the January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization. Wholly-owned subsidiaries of The Blackstone Group L.P. are the sole general partner of each of the Blackstone Holdings partnerships. Accordingly, The Blackstone Group L.P. operates and controls all of the business and affairs of Blackstone Holdings and, through Blackstone Holdings and its operating entity subsidiaries, conducts our business. Through its wholly-owned subsidiaries, The Blackstone Group L.P. has unilateral control over all of the affairs and decision making of Blackstone Holdings. Furthermore, the wholly-owned subsidiaries of The Blackstone Group L.P. cannot be removed as the general partners of the Blackstone Holdings partnerships without their approval. Because our general partner, Blackstone Group Management L.L.C., operates and controls the business of The Blackstone Group L.P., the board of directors and officers of our general partner are accordingly responsible for all operational and administrative decisions of Blackstone Holdings and the day-to-day management of Blackstone Holdings' business. Pursuant to the partnership agreements of the Blackstone Holdings partnerships, the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships have the right to determine when distributions will be made to the partners of Blackstone Holdings and the amount of any such distributions. If a distribution is authorized, such distribution will be made to the partners of Blackstone Holdings pro rata in accordance with the percentages of their respective partnership interests as described under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy."

Each of the Blackstone Holdings partnerships has an identical number of partnership units outstanding, and we use the terms "Blackstone Holdings Partnership Unit" or "partnership unit in/of Blackstone Holdings" to refer, collectively, to a partnership unit in each of the Blackstone Holdings partnerships. The holders of partnership units in Blackstone Holdings, including The Blackstone Group L.P.'s wholly-owned subsidiaries, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of Blackstone Holdings. Net profits and net losses of Blackstone Holdings will generally be allocated to its partners (including The Blackstone Group L.P.'s wholly-owned subsidiaries) pro rata in accordance with the percentages of their respective partnership interests as described under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy". The partnership agreements of the Blackstone Holdings partnerships provide for cash distributions, which we refer to as "tax distributions," to the partners of such partnerships if the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions are computed based on our estimate of the net taxable income of the relevant partnership allocable

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to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of our income). Tax distributions are made only to the extent all distributions from such partnerships for the relevant year are insufficient to cover such tax liabilities.

Subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, Blackstone Holdings Partnership Units may be exchanged for The Blackstone Group L.P. common units as described under “—Exchange Agreement” below. In addition, the Blackstone Holdings partnership agreements authorize the wholly-owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings partnerships units, and which may be exchangeable for our common units.

See “Item 11. Executive Compensation—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards—Terms of Blackstone Holdings Partnership Units—Vesting Provisions” for a discussion of vesting provisions applicable to Blackstone personnel in respect of the Blackstone Holdings Partnership Units received by them in the reorganization and “Item 11. Executive Compensation—Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards—Terms of Blackstone Holdings Partnership Units—Minimum Retained Ownership Requirements and Transfer Restrictions” for a discussion of minimum retained ownership requirements and transfer restrictions applicable to the Blackstone Holdings Partnership Units. The generally applicable vesting and minimum retained ownership requirements and transfer restrictions are outlined in the sections referenced in the preceding sentence. There may be some different arrangements for some individuals in some instances. In addition, we may waive these requirements and restrictions from time to time.

In addition, substantially all of our expenses, including substantially all expenses solely incurred by or attributable to The Blackstone Group L.P. but not including obligations incurred under the tax receivable agreement by The Blackstone Group L.P.’s wholly-owned subsidiaries, income tax expenses of The Blackstone Group L.P.’s wholly-owned subsidiaries and payments on indebtedness incurred by The Blackstone Group L.P.’s wholly-owned subsidiaries, are borne by Blackstone Holdings.

### Exchange Agreement

In connection with the reorganization and IPO, we entered into an exchange agreement with the holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.’s wholly-owned subsidiaries). In addition, newly admitted Blackstone senior managing directors and certain others who acquire Blackstone Holdings Partnership Units have subsequently become parties to the exchange agreement. Under the exchange agreement, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, each such holder of Blackstone Holdings Partnership Units (and certain transferees thereof) may up to four times each year (subject to the terms of the exchange agreement) exchange these partnership units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Under the exchange agreement, to effect an exchange a holder of partnership units in Blackstone Holdings must simultaneously exchange one partnership unit in each of the Blackstone Holdings partnerships. As a holder exchanges its Blackstone Holdings Partnership Units, The Blackstone Group L.P.’s indirect interest in the Blackstone Holdings partnerships will be correspondingly increased.

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### **Firm Use of Our Founder's Private Aircraft**

Certain entities controlled by Mr. Schwarzman wholly own an airplane and have a partial interest in a helicopter that we use for business purposes in the course of our operations. Mr. Schwarzman paid for the ownership interests in these aircraft himself and bore all operating, personnel and maintenance costs associated with their operation. The hourly payments we made to these entities for such use were based on current market rates for chartering private aircraft. In 2012, we paid to these entities \$2.1 million for the use of the airplane and \$0.2 million for the use of the helicopter.

### **Side-By-Side and Other Investment Transactions**

Our directors and executive officers are permitted to invest their own capital in side-by-side investments with our carry funds. Side-by-side investments are investments in portfolio companies or other assets on generally the same terms and conditions as those investments made by the applicable fund, except that these side-by-side investments are not subject to management fees or carried interest. In addition, our directors and executive officers are permitted to invest their own capital in our funds of hedge funds and credit-focused funds that are structured as hedge funds, in some instances, not subject to management fees or carried interest. These investment opportunities are available to all of our senior managing directors and to those of our employees whom we have determined to have a status that reasonably permits us to offer them these types of investments in compliance with applicable laws. None of our directors or executive officers received net distributions from Blackstone-managed investment vehicles during the year ended December 31, 2012, except for Mr. Schwarzman (and certain investment trusts controlled by him or his immediate family members) who received \$11,316,420 relating to his personal investments (and the investments of such trusts) in Blackstone-managed investment funds.

### **Statement of Policy Regarding Transactions with Related Persons**

The board of directors of our general partner has adopted a written statement of policy regarding transactions with related persons, which we refer to as our "related person policy." Our related person policy requires that a "related person" (as defined as in paragraph (a) of Item 404 of Regulation S-K) must promptly disclose to the Chief Legal Officer of our general partner any "related person transaction" (defined as any transaction that is reportable by us under Item 404(a) of Regulation S-K in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest) and all material facts with respect thereto. The Chief Legal Officer will then promptly communicate that information to the board of directors of our general partner. No related person transaction will be consummated without the approval or ratification of the board of directors of our general partner or any committee of the board of directors consisting exclusively of disinterested directors. It is our policy that directors interested in a related person transaction will recuse themselves from any vote of a related person transaction in which they have an interest.

### **Indemnification of Directors and Officers**

Under our partnership agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts: our general partner; any departing general partner; any person who is or was an affiliate of a general partner or any departing general partner; any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of us or our subsidiaries, the general partner or any departing general partner or any affiliate of ours or our subsidiaries, the general partner or any departing general partner; any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another person; or any person designated by our general partner. We have agreed to provide this indemnification to the extent such person acted in good faith and in a manner he or she reasonably

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believed to be in or not opposed to the best interests of the partnership, and with respect to any alleged conduct resulting in a criminal proceeding against such person, to deny indemnification if such person had reasonable cause to believe that his or her conduct was unlawful. We have also agreed to provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

We will also indemnify any of our employees who personally becomes subject to a “clawback” obligation to one of our investment funds in respect of carried interest that we have received. See “Item 1. Business—Incentive Arrangements / Fee Structure”.

### Non-Competition and Non-Solicitation Agreements

We have entered into a non-competition and non-solicitation agreement with each of our professionals and other senior employees, including each of our executive officers. See “Item 11. Executive Compensation—Non-Competition and Non-Solicitation Agreements” for a description of the material terms of such agreements.

### Director Independence

Because we are a publicly traded limited partnership, the NYSE rules do not require our general partner’s board to be made up of a majority of independent directors. However, four of the seven members of our general partner’s board of directors satisfy the independence and financial literacy requirements of the NYSE and the SEC. These directors are Messrs. Jenrette, Light, Mulroney and Parrett. Based on all relevant facts and circumstances, our general partner’s board of directors affirmatively determined on January 29, 2013 that the independent directors have no material relationship with us or our general partner. The board of directors of our general partner follows the following standards in determining director independence:

Under any circumstances, a director is not independent if:

- the director is, or has been within the preceding three years, employed by our general partner or us,
- an immediate family member of the director was employed as an executive officer of our general partner or us within the preceding three years,
- the director, or an immediate family member of that director, received within the preceding three years more than \$120,000 in any twelve-month period in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service),
- the director is a current partner or employee of a firm that is our internal or external auditor; the director has an immediate family member who is a current partner of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on our audit; or the director or an immediate family member of that director was within the last three years a partner or employee of such a firm and personally worked on our or a predecessor’s audit within that time,
- the director or an immediate family member is, or has been within the preceding three years, employed as an executive officer of another company where any of our general partner’s present executive officers at the same time serves or served on such other company’s compensation committee, or
- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the preceding three fiscal years, exceeds the greater of \$1,000,000 or two percent (2%) of the consolidated gross revenues of the other company.

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The following commercial or charitable relationships will not be considered to be material relationships that would impair a director's independence:

- if the director or an immediate family member of that director serves as an executive officer, director or trustee of a charitable organization, and our annual charitable contributions to that organization (excluding contributions by us under any established matching gift program) are less than the greater of \$1,000,000 or two percent (2%) of that organization's consolidated gross revenues in its most recent fiscal year, and
- if the director or an immediate family member of that director (or a company for which the director serves as a director or executive officer) invests in or alongside of one or more investment funds or investment companies managed by us or any of our subsidiaries, whether or not fees or other incentive arrangements for us or our subsidiaries are borne by the investing person.

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### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the aggregate fees for professional services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the “Deloitte Entities”) for the years ended December 31, 2012 and 2011:

	<u>Year Ended December 31, 2012</u>		
	<u>Blackstone</u>		<u>Blackstone</u>
	<u>Blackstone</u>	<u>Entities</u>	<u>Private</u>
	(Dollars in Thousands)		<u>Equity and</u>
	<u>Blackstone</u>	<u>Entities</u>	<u>Real Estate</u>
Audit Fees	\$ 11,000(a)	\$ 22,544(c)	\$ —
Audit-Related Fees	\$ 1,046	\$ 95(c)	\$ 9,677(d)
Tax Fees	\$ 500(b)	\$ 29,068(c)	\$ 4,802(d)

	<u>Year Ended December 31, 2011</u>		
	<u>Blackstone</u>		<u>Blackstone</u>
	<u>Blackstone</u>	<u>Entities</u>	<u>Private</u>
	(Dollars in Thousands)		<u>Equity and</u>
	<u>Blackstone</u>	<u>Entities</u>	<u>Real Estate</u>
Audit Fees	\$ 10,000(a)	\$ 19,625(c)	\$ —
Audit-Related Fees	\$ —	\$ 95(c)	\$ 18,168(d)
Tax Fees	\$ 500(b)	\$ 26,866(c)	\$ 9,781(d)

- (a) Audit Fees consisted of fees for (a) the audits of our consolidated financial statements in our Annual Report on Form 10-K and services attendant to, or required by, statute or regulation, (b) reviews of the interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and (c) comfort letters, consents and other services related to SEC and other regulatory filings.
- (b) Tax Fees consisted of fees for services rendered for tax compliance and tax planning and advisory services.
- (c) The Deloitte Entities also provide audit and tax services to certain private equity and real estate investment funds and other entities managed by Blackstone in its capacity as the general partner. The tax services provided consist primarily of tax compliance and related services.
- (d) Audit-Related Fees included merger and acquisition due diligence services provided in connection with potential acquisitions of portfolio companies for investment purposes primarily to certain private equity and real estate funds managed by Blackstone in its capacity as the general partner. In addition, the Deloitte Entities provide audit, audit-related, tax and other services to the portfolio companies for which services and fees are approved directly by the portfolio company’s management and are not included in the amounts presented here.

Our audit committee charter, which is available on our website at [www.blackstone.com](http://www.blackstone.com) under “Investor Relations”, requires the audit committee to approve in advance all audit and non-audit related services to be provided by our independent registered public accounting firm in accordance with the audit and non-audit related services pre-approval policy. All services reported in the Audit, Audit-Related, Tax and Other categories above were approved by the audit committee.

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### PART IV.

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this annual report.

1. *Financial Statements:*

See Item 8 above.

2. *Financial Statement Schedules:*

Schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-141504) filed with the SEC on March 22, 2007).
3.2	Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P. (incorporated herein by reference to Exhibit 3.1 to Form 8-K filed with the SEC on June 27, 2007).
3.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 3.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
3.2.2	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of The Blackstone Group L.P., dated as of November 4, 2011 (incorporated herein by reference to Exhibit 3.2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
4.1	Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.2	First Supplemental Indenture dated as of August 20, 2009 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.3	Form of 6.625% Senior Note due 2019 (included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated August 20, 2009).
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.6	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.7	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.6 hereto).
4.8	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.9	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.8 hereto).
10.1	Amended and Restated Limited Partnership Agreement of Blackstone Holdings I L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings I L.P. party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.1.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings I L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.1.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.2	Amended and Restated Limited Partnership Agreement of Blackstone Holdings II L.P., dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc. and the limited partners of Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.2.1	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Blackstone Holdings II L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.3	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III L.P., dated as of January 1, 2009, by and among Blackstone Holdings III GP L.L.C. and the limited partners of Blackstone Holdings III L.P. party thereto (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.3.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings III L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.4	Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV L.P., dated as of January 1, 2009, by and among Blackstone Holdings IV GP L.P. and the limited partners of Blackstone Holdings IV L.P. party thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.4.1	Amendment No. 1 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Holdings IV L.P., dated as of November 3, 2009 (incorporated herein by reference to Exhibit 10.4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (File No. 001-33551) filed with the SEC on November 6, 2009).
10.5	Tax Receivable Agreement, dated as of June 18, 2007, by and among Blackstone Holdings I/II GP Inc., Blackstone Holdings I L.P., Blackstone Holdings II L.P. and the limited partners of Blackstone Holdings I L.P. and Blackstone Holdings II L.P. party thereto (incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.6*	Second Amended and Restated Exchange Agreement, dated as of February 28, 2013, among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto.
10.7	Registration Rights Agreement, dated as of June 18, 2007 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.8.1+	The Blackstone Group L.P. Amended and Restated 2007 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.8.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.9+*	The Blackstone Group L.P. Fourth Amended and Restated Bonus Deferral Plan effective as of December 1, 2012.
10.10+	Founding Member Agreement of Stephen A. Schwarzman, dated as of June 18, 2007, by and among Blackstone Holdings I L.P. and Stephen A. Schwarzman (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.11+	Agreement, dated as of June 9, 2008, between Blackstone Holdings I L.P. and Laurence A. Tosi (incorporated herein by reference to Exhibit 10.28 to the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2008).
10.12+	Form of Senior Managing Director Agreement by and among Blackstone Holdings I L.P. and each of the Senior Managing Directors from time to time party thereto (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 14, 2007). (Applicable to all executive officers other than Messrs. Schwarzman and Peterson).
10.13+	Form of Deferred Restricted Common Unit Award Agreement (Directors) (incorporated herein by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.14+	Form of Deferred Restricted Blackstone Holdings Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.15	Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.15.1	First Amendment, dated as of April 8, 2011, to the Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as Borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.15.2	Second Amendment, dated as of July 13, 2012, to the Credit Agreement, dated as of March 23, 2010, among Blackstone Holdings Finance Co. L.L.C., as Borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as Guarantors, Citibank, N.A., as Administrative Agent and the Lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on July 17, 2012).
10.16	Letter Agreement between The Blackstone Group L.P. and the Beijing Wonderful Investments Ltd, dated May 22, 2007 (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1/A (File No. 333-141504) filed with the SEC on June 4, 2007).
10.17	Letter Agreement, dated October 16, 2008, between The Blackstone Group L.P. and Beijing Wonderful Investment Ltd., amending the Letter Agreement, dated May 22, 2007, between The Blackstone Group L.P. and Beijing Wonderful Investments Ltd (incorporated herein by reference to Exhibit 10.16.1 to the Registrants' Current Report on Form 8-K filed with the SEC on October 16, 2008).
10.18+	Second Amended and Restated Limited Liability Company Agreement of BMA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BMA V L.L.C (incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.19.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International L.P., dated as of May 31, 2007, by and among BREA International (Cayman) Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.20+	Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.20.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates International II L.P., dated as of May 31, 2007, by and among BREA International (Cayman) II Ltd. and certain limited partners (incorporated herein by reference to Exhibit 10.20.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.21+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Management Associates IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Management Associates IV L.L.C. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.22+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates L.L.C. (incorporated herein by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.23+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Mezzanine Management Associates II L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Mezzanine Management Associates II L.L.C. (incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.24+	Second Amended and Restated Limited Liability Company Agreement of BREA IV L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA IV L.L.C. (incorporated herein by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.25+	Second Amended and Restated Limited Liability Company Agreement of BREA V L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA V L.L.C. (incorporated herein by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26+	Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).
10.26.1+	Amendment No. 1 dated as of January 1, 2008 to the Second Amended and Restated Limited Liability Company Agreement of BREA VI L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of BREA VI L.L.C. (incorporated herein by reference to Exhibit 10.26.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.27	Second Amended and Restated Limited Liability Company Agreement of Blackstone Communications Management Associates I L.L.C., dated as of May 31, 2007, by and among Blackstone Holdings III L.P. and certain members of Blackstone Communications Management Associates I L.L.C. (incorporated herein by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33551) filed with the SEC on August 13, 2007).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.28+	Amended and Restated Limited Liability Company Agreement of BCLA L.L.C., dated as of April 15, 2008, by and among Blackstone Holdings III L.P. and certain members of BCLA L.L.C. (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33551) filed with the SEC on May 15, 2008).
10.29+	Third Amended and Restated Agreement of Limited Partnership of Blackstone Real Estate Management Associates Europe III L.P., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.30+	Second Amended and Restated Limited Liability Company Agreement of Blackstone Real Estate Special Situations Associates L.L.C., dated as of June 30, 2008 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33551) filed with the SEC on August 8, 2008).
10.31+	BMA VI L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2008 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33551) filed with the SEC on November 7, 2008).
10.32+	Fourth Amended and Restated Limited Liability Company Agreement of GSO Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.33+	Amended and Restated Limited Liability Company Agreement of GSO Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.34+	Third Amended and Restated Limited Liability Company Agreement of GSO Origination Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.35+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.36+	Third Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.37+	Second Amended and Restated Limited Liability Company Agreement of GSO Liquidity Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).
10.38+	Amended and Restated Limited Liability Company Agreement of GSO Liquidity Overseas Associates LLC, dated as of March 3, 2008 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33551) filed with the SEC on March 2, 2009).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.39+	Blackstone / GSO Capital Solutions Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of May 22, 2009 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.40+	Blackstone / GSO Capital Solutions Overseas Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of July 10, 2009 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.41+	Blackstone Real Estate Special Situations Associates II L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.42+	Blackstone Real Estate Special Situations Management Associates Europe L.P. Amended and Restated Agreement of Limited Partnership, dated as of June 30, 2009 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.43+	BRECA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of May 1, 2009 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Quarterly Report on 10-Q for the quarter ended June 30, 2009 (File No. 001-33551) filed with the SEC on August 7, 2009).
10.44	Amended and Restated Master Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Management Partners IV, L.L.C., dated as of February 27, 2012 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.45	GSO Targeted Opportunity Associates LLC Amended and Restated Limited Liability Company Agreement Dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.46	GSO Targeted Opportunity Overseas Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of December 9, 2009 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33551) filed with the SEC on May 10, 2010).
10.47	BCVA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of July 8, 2010 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33551) filed with the SEC on August 6, 2010).
10.48	Amended and Restated Agreement of Exempted Limited Partnership of MB Asia REA L.P., dated November 23, 2010 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33551) filed with the SEC on February 25, 2011).
10.49	Amended and Restated Limited Liability Company Agreement of GSO SJ Partners Associates LLC, dated December 7, 2010, by and among GSO Holdings I L.L.C. and certain members of GSO SJ Partners Associates LLC thereto (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).
10.50	Amended and Restated Limited Liability Company Agreement of GSO Capital Opportunities Associates II LLC, dated as of March 31, 2011, by and among GSO Holdings I L.L.C. and certain members of GSO Capital Opportunities Associates II LLC thereto (incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-33551) filed with the SEC on May 6, 2011).

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.51	Blackstone EMA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.52	GSO NMERB Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 25, 2011 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53	Blackstone Real Estate Associates VII L.P. Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 001-33551) filed with the SEC on November 9, 2011).
10.53.1	Blackstone Real Estate Associates VII L.P. Second Amended and Restated Agreement of Limited Partnership, dated as of September 1, 2011 (incorporated herein by reference to Exhibit 10.53.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33551) filed with the SEC on February 28, 2012).
10.54	GSO Energy Partners-A Associates LLC Second Amended and Restated Limited Liability Company Agreement, dated as of February 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.55	BTOA L.L.C. Amended and Restated Limited Liability Company Agreement, dated as of February 15, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33551) filed with the SEC on May 7, 2012).
10.56+	Form of Deferred Holdings Unit Agreement for Senior Managing Directors (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.57+	Amended and Restated Limited Liability Company Agreement of Blackstone Commercial Real Estate Debt Associates L.L.C., dated as of November 12, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-33551) filed with the SEC on August 7, 2012).
10.58+	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.59+	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-33551) filed with the SEC on November 2, 2012).
10.60+*	GSO Foreland Resources Co-Invest Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of August 10, 2012.
10.61+*	GSO Palmetto Opportunistic Associates LLC Amended and Restated Limited Liability Company Agreement, dated as of July 31, 2012.

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1*	Section 13(r) Disclosure.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

+ Management contract or compensating plan or arrangement in which directors or executive officers are eligible to participate.

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



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 1, 2013

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

/s/ Laurence A. Tosi

Name: Laurence A. Tosi

Title: Chief Financial Officer  
(Principal Financial Officer and  
Authorized Signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 1st day of March, 2013.

<u>Signature</u>	<u>Title</u>
<u>/s/ Stephen A. Schwarzman</u> Stephen A. Schwarzman	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
<u>/s/ Jonathan D. Gray</u> Jonathan D. Gray	Director
<u>/s/ J. Tomilson Hill</u> J. Tomilson Hill	Director
<u>/s/ Hamilton E. James</u> Hamilton E. James	Director
<u>/s/ Richard Jenrette</u> Richard Jenrette	Director
<u>/s/ Jay O. Light</u> Jay O. Light	Director
<u>/s/ Brian Mulrone</u> Brian Mulrone	Director
<u>/s/ William G. Parrett</u> William G. Parrett	Director
<u>/s/ Laurence A. Tosi</u> Laurence A. Tosi	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Kathleen Skero</u> Kathleen Skero	Principal Accounting Officer (Principal Accounting Officer)