

Blackstone Group L.P.  
Form 10-K  
February 27, 2015  
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**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**

**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**

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(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
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

Non-accelerated filer

(do not check if a smaller reporting company)

Accelerated filer

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, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other 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.

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,

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(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.

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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 \$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.

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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 clients' 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 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. 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](#) and [Risks Related to Our Financial Advisory Business](#). The asset management business is intensely competitive and 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.*

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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,

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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,

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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

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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.

**Table of Contents****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.

**Table of Contents****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>	<b>7,484,728</b>	<b>6,613,168</b>	<b>4,019,441</b>	<b>3,252,576</b>	<b>3,119,342</b>
<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>	<b>3,855,856</b>	<b>3,866,740</b>	<b>3,260,681</b>	<b>3,388,069</b>	<b>4,143,990</b>
<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>	<b>357,854</b>	<b>402,133</b>	<b>256,145</b>	<b>212,751</b>	<b>501,994</b>
<b>Income (Loss) Before Provision for Taxes</b>	<b>3,986,726</b>	<b>3,148,561</b>	<b>1,014,905</b>	<b>77,258</b>	<b>(522,654)</b>
<b>Provision for Taxes</b>	<b>291,173</b>	<b>255,642</b>	<b>185,023</b>	<b>345,711</b>	<b>84,669</b>
<b>Net Income (Loss)</b>	<b>3,695,553</b>	<b>2,892,919</b>	<b>829,882</b>	<b>(268,453)</b>	<b>(607,323)</b>
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>74,794</b>	<b>183,315</b>	<b>103,598</b>	<b>(24,869)</b>	<b>87,651</b>
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	<b>335,070</b>	<b>198,557</b>	<b>99,959</b>	<b>7,953</b>	<b>343,498</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<b>1,701,100</b>	<b>1,339,845</b>	<b>407,727</b>	<b>(83,234)</b>	<b>(668,444)</b>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ 1,584,589</b>	<b>\$ 1,171,202</b>	<b>\$ 218,598</b>	<b>\$ (168,303)</b>	<b>\$ (370,028)</b>

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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.

	2014	2013	December 31, 2012	2011	2010
	(Dollars in Thousands)				
<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 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 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](#).

***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.

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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>:

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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	\$	%	\$	%
<b>(Dollars in Thousands)</b>							
<b>Revenues</b>							
Management and Advisory Fees, Net	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693	\$ 303,267	14%	\$ 163,292	8%
<b>Performance Fees</b>							
<b>Realized</b>							
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%
<b>Unrealized</b>							
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%
<b>Investment Income</b>							
<b>Realized</b>							
Realized	523,735	188,644	93,963	335,091	178%	94,681	101%
<b>Unrealized</b>							
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>							
<b>Compensation and Benefits</b>							
Compensation	1,868,868	1,844,485	2,091,698	24,383	1%	(247,213)	-12%
<b>Performance Fee Compensation</b>							
<b>Realized</b>							
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%
<b>Unrealized</b>							
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>

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<b>Income Before Provision for Taxes</b>	3,986,726	3,148,561	1,014,905	838,165	27%	2,133,656	210%
<b>Provision for Taxes</b>	291,173	255,642	185,023	35,531	14%	70,619	38%
<b>Net Income</b>	3,695,553	2,892,919	829,882	802,634	28%	2,063,037	249%
<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>	\$ 1,584,589	\$ 1,171,202	\$ 218,598	\$ 413,387	35%	\$ 952,604	436%

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 .

Note: Totals may not add due to rounding.

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	Year Ended December 31,									
	2014					2013				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
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 (Outflows) Market Appreciation (depreciation) (d)	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
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
Change	\$ 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
Change	3%	3%	16%	14%	9%	15%	21%	22%	14%	18%

	Year Ended December 31, 2012				
	Private Equity	Real Estate	Hedge Fund 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) Market Appreciation (d)	(216,363)	10,567,775	2,444,807	13,543,780	26,339,999
	28,739	127,024	3,214,348	1,413,577	4,783,688

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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,									
	Private Equity	Real Estate	2014 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	2013 Hedge Fund Solutions	Credit	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	60,278,900
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)	(8,368,228)
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)	(29,526,435)
Net Inflows Market Appreciation (d)	(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	22,384,220
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	\$ 55,537,660
	11%	2%	14%	12%	9%	29%	40%	21%	15%	

	Year Ended December 31, 2012				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
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 Market Appreciation (d)	704,574	8,377,169	2,171,040	16,880,847	28,133,630
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

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Increase	11%	32%	14%	53%	26%
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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, 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:

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\$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 past 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:

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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:

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\$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.

**Table of Contents***Limited Partner Capital Invested*

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

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	\$ 13,898,971	\$ 14,179,704	\$ 24,369,501	\$ 280,733	2%	\$ 10,189,797	72%

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.

**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, 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.

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
<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	
<b>Total Private Equity (a)</b>	<b>1,657</b>	<b>632</b>
<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
<b>Total Real Estate (a)</b>	<b>2,612</b>	<b>2,347</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	76	144
<b>Total Hedge Fund Solutions</b>	<b>76</b>	<b>144</b>
<b>Credit</b>		
Carried Interest	175	173
Incentive Fees	32	104
<b>Total Credit</b>	<b>207</b>	<b>277</b>
<b>Total Blackstone</b>		
Carried Interest	4,435	3,138
Incentive Fees	117	262
<b>Net Accrued Performance Fees</b>	<b>\$ 4,552</b>	<b>\$ 3,400</b>



- \* 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 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
<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
<b>Total Corporate Private Equity</b>	<b>58,234,997</b>	<b>13,479,435</b>	<b>34,461,158</b>	<b>1.5x</b>	<b>41%</b>	<b>54,286,932</b>	<b>2.2x</b>	<b>88,748,090</b>	<b>1.9x</b>	<b>22%</b>	<b>16%</b>
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
<b>Total Private Equity</b>	<b>\$ 83,170,272</b>	<b>\$ 22,294,576</b>	<b>\$ 45,374,288</b>	<b>1.5x</b>	<b>32%</b>	<b>\$ 66,552,260</b>	<b>2.0x</b>	<b>\$ 111,926,548</b>	<b>1.8x</b>	<b>20%</b>	<b>16%</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	2,531,612	2.1x	2,531,612	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708				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%
<b>Total Global Real Estate Funds</b>	<b>\$ 35,507,091</b>	<b>\$ 3,810,635</b>	<b>\$ 40,057,917</b>	<b>1.8x</b>	<b>23%</b>	<b>\$ 29,075,239</b>	<b>2.2x</b>	<b>\$ 69,133,156</b>	<b>2.0x</b>	<b>24%</b>	<b>18%</b>
<b>Euro</b>											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172		125,722	1.5x	92%	1,250,606	2.2x	1,376,328	2.1x	25%	23%

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BREP Int 1 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%
<b>Total Euro Real Estate Funds</b>	<b>12,163,482</b>	<b>4,885,638</b>	<b>8,481,444</b>	<b>1.4x</b>	<b>11%</b>	<b>3,201,132</b>	<b>2.1x</b>	<b>11,682,576</b>	<b>1.5x</b>	<b>23%</b>	<b>13%</b>
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%
<b>Total Real Estate</b>	<b>\$ 61,994,079</b>	<b>\$ 13,055,951</b>	<b>\$ 61,533,703</b>	<b>1.7x</b>	<b>24%</b>	<b>\$ 36,462,326</b>	<b>2.2x</b>	<b>\$ 97,996,029</b>	<b>1.9x</b>	<b>23%</b>	<b>17%</b>
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
<b>Total Credit</b>	<b>\$ 14,498,143</b>	<b>\$ 6,765,161</b>	<b>\$ 7,473,569</b>	<b>1.3x</b>		<b>\$ 8,385,621</b>	<b>1.5x</b>	<b>\$ 15,859,190</b>	<b>1.4x</b>		

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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 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, 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.

**Table of Contents****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	\$	%	\$	%
<b>(Dollars in Thousands)</b>							
<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%
<b>Total Management Fees, Net</b>	<b>531,337</b>	<b>459,451</b>	<b>442,748</b>	<b>71,886</b>	<b>16%</b>	<b>16,703</b>	<b>4%</b>
<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	1,222,828	398,232	148,381	824,596	207%	249,851	168%
<b>Total Performance Fees</b>	<b>1,977,230</b>	<b>728,225</b>	<b>258,178</b>	<b>1,249,005</b>	<b>172%</b>	<b>470,047</b>	<b>182%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	202,719	88,026	25,823	114,693	130%	62,203	241%
<b>Unrealized</b>							
Unrealized	(23,914)	161,749	85,337	(185,663)	N/M	76,412	90%
<b>Total Investment Income</b>	<b>178,805</b>	<b>249,775</b>	<b>111,160</b>	<b>(70,970)</b>	<b>-28%</b>	<b>138,615</b>	<b>125%</b>
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%
<b>Total Revenues</b>	<b>2,715,924</b>	<b>1,457,312</b>	<b>828,059</b>	<b>1,258,612</b>	<b>86%</b>	<b>629,253</b>	<b>76%</b>
<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	210,446	342,733	58,555	(132,287)	-39%	284,178	485%
<b>Total Compensation and Benefits</b>	<b>753,286</b>	<b>617,806</b>	<b>284,943</b>	<b>135,480</b>	<b>22%</b>	<b>332,863</b>	<b>117%</b>
<b>Other Operating Expenses</b>	<b>142,898</b>	<b>124,137</b>	<b>130,845</b>	<b>18,761</b>	<b>15%</b>	<b>(6,708)</b>	<b>-5%</b>
<b>Total Expenses</b>	<b>896,184</b>	<b>741,943</b>	<b>415,788</b>	<b>154,241</b>	<b>21%</b>	<b>326,155</b>	<b>78%</b>
<b>Economic Income</b>	<b>\$ 1,819,740</b>	<b>\$ 715,369</b>	<b>\$ 412,271</b>	<b>\$ 1,104,371</b>	<b>154%</b>	<b>\$ 303,098</b>	<b>74%</b>

N/M Not meaningful.  
Revenues

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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			
	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.

- (a) Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective funds' 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) 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.

**Table of Contents****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%
<b>Total Management Fees, Net</b>	<b>685,669</b>	<b>622,036</b>	<b>608,394</b>	<b>63,633</b>	<b>10%</b>	<b>13,642</b>	<b>2%</b>
<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
<b>Total Performance Fees</b>	<b>2,017,786</b>	<b>2,155,582</b>	<b>874,415</b>	<b>(137,796)</b>	<b>-6%</b>	<b>1,281,167</b>	<b>147%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	309,095	52,359	45,302	256,736	490%	7,057	16%
<b>Unrealized</b>							
Unrealized	(58,930)	350,201	90,875	(409,131)	N/M	259,326	285%
<b>Total Investment Income</b>	<b>250,165</b>	<b>402,560</b>	<b>136,177</b>	<b>(152,395)</b>	<b>-38%</b>	<b>266,383</b>	<b>196%</b>
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%
<b>Total Revenues</b>	<b>2,986,680</b>	<b>3,205,125</b>	<b>1,634,328</b>	<b>(218,445)</b>	<b>-7%</b>	<b>1,570,797</b>	<b>96%</b>
<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
<b>Total Compensation and Benefits</b>	<b>959,716</b>	<b>1,018,759</b>	<b>511,499</b>	<b>(59,043)</b>	<b>-6%</b>	<b>507,260</b>	<b>99%</b>
Other Operating Expenses	146,083	116,391	123,714	29,692	26%	(7,323)	-6%
<b>Total Expenses</b>	<b>1,105,799</b>	<b>1,135,150</b>	<b>635,213</b>	<b>(29,351)</b>	<b>-3%</b>	<b>499,937</b>	<b>79%</b>
<b>Economic Income</b>	<b>\$ 1,880,881</b>	<b>\$ 2,069,975</b>	<b>\$ 999,115</b>	<b>\$ (189,094)</b>	<b>-9%</b>	<b>\$ 1,070,860</b>	<b>107%</b>

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			
	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:

Fully Invested Funds	Gain to Cross Carried Interest Threshold (a)		
	Amount	% Change in Total Enterprise Value (b) (Amounts in Millions)	% Change in Equity Value
BREP Int 1 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.

**Table of Contents****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%
<b>Total Management Fees, Net</b>	<b>478,536</b>	<b>406,557</b>	<b>344,984</b>	<b>71,979</b>	<b>18%</b>	<b>61,573</b>	<b>18%</b>
<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%
<b>Total Performance Fees</b>	<b>139,650</b>	<b>215,453</b>	<b>92,475</b>	<b>(75,803)</b>	<b>-35%</b>	<b>122,978</b>	<b>133%</b>
<b>Investment Income (Loss)</b>							
<b>Realized</b>							
Realized	21,550	27,613	7,270	(6,063)	-22%	20,343	280%
<b>Unrealized</b>							
Unrealized	5,132	(9,306)	8,517	14,438	N/M	(17,823)	N/M
<b>Total Investment Income</b>	<b>26,682</b>	<b>18,307</b>	<b>15,787</b>	<b>8,375</b>	<b>46%</b>	<b>2,520</b>	<b>16%</b>
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%
<b>Total Revenues</b>	<b>657,837</b>	<b>648,610</b>	<b>459,201</b>	<b>9,227</b>	<b>1%</b>	<b>189,409</b>	<b>41%</b>
<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%
<b>Total Compensation and Benefits</b>	<b>173,836</b>	<b>205,119</b>	<b>144,128</b>	<b>(31,283)</b>	<b>-15%</b>	<b>60,991</b>	<b>42%</b>
<b>Other Operating Expenses</b>	<b>86,129</b>	<b>66,966</b>	<b>57,809</b>	<b>19,163</b>	<b>29%</b>	<b>9,157</b>	<b>16%</b>
<b>Total Expenses</b>	<b>259,965</b>	<b>272,085</b>	<b>201,937</b>	<b>(12,120)</b>	<b>-4%</b>	<b>70,148</b>	<b>35%</b>
<b>Economic Income</b>	<b>\$ 397,872</b>	<b>\$ 376,525</b>	<b>\$ 257,264</b>	<b>\$ 21,347</b>	<b>6%</b>	<b>\$ 119,261</b>	<b>46%</b>

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:

	Fee-Earning Assets Under Management Eligible for Incentive Fees			Estimated % Above High Water Mark and/or Hurdle (a)		
	2012	2013	2014	2012	2013	2014
	(Dollars in Thousands)					
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.

**Table of Contents****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%
<b>Total Management Fees, Net</b>	<b>450,198</b>	<b>386,415</b>	<b>381,148</b>	<b>63,783</b>	<b>17%</b>	<b>5,267</b>	<b>1%</b>
<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
<b>Total Performance Fees</b>	<b>257,211</b>	<b>457,113</b>	<b>368,697</b>	<b>(199,902)</b>	<b>-44%</b>	<b>88,416</b>	<b>24%</b>
<b>Investment Income</b>							
<b>Realized</b>							
Realized	9,354	4,098	15,611	5,256	128%	(11,513)	-74%
<b>Unrealized</b>							
Unrealized	5,055	13,951	4,769	(8,896)	-64%	9,182	193%
<b>Total Investment Income</b>	<b>14,409</b>	<b>18,049</b>	<b>20,380</b>	<b>(3,640)</b>	<b>-20%</b>	<b>(2,331)</b>	<b>-11%</b>
Interest and Dividend Revenue	23,040	18,146	9,330	4,894	27%	8,816	94%
Other	(2,310)	527	(1,174)	(2,837)	N/M	1,701	N/M
<b>Total Revenues</b>	<b>742,548</b>	<b>880,250</b>	<b>778,381</b>	<b>(137,702)</b>	<b>-16%</b>	<b>101,869</b>	<b>13%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
<b>Compensation</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
<b>Total Compensation and Benefits</b>	<b>321,287</b>	<b>424,824</b>	<b>368,615</b>	<b>(103,537)</b>	<b>-24%</b>	<b>56,209</b>	<b>15%</b>
Other Operating Expenses	90,524	96,940	84,488	(6,416)	-7%	12,452	15%
<b>Total Expenses</b>	<b>411,811</b>	<b>521,764</b>	<b>453,103</b>	<b>(109,953)</b>	<b>-21%</b>	<b>68,661</b>	<b>15%</b>
<b>Economic Income</b>	<b>\$ 330,737</b>	<b>\$ 358,486</b>	<b>\$ 325,278</b>	<b>\$ (27,749)</b>	<b>-8%</b>	<b>\$ 33,208</b>	<b>10%</b>

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.**

- (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 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	
							Inception to	
							Date	
	2014		2013		2012		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.**

- (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 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.
- (c) 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.

**Table of Contents****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%
<b>Total Advisory and Transaction Fees</b>	<b>422,300</b>	<b>411,619</b>	<b>357,712</b>	<b>10,681</b>	<b>3%</b>	<b>53,907</b>	<b>15%</b>
<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%
<b>Total Investment Income (Loss)</b>	<b>1,567</b>	<b>(886)</b>	<b>2,740</b>	<b>2,453</b>	<b>N/M</b>	<b>(3,626)</b>	<b>N/M</b>
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
<b>Total Revenues</b>	<b>434,305</b>	<b>420,203</b>	<b>366,805</b>	<b>14,102</b>	<b>3%</b>	<b>53,398</b>	<b>15%</b>
<b>Expenses</b>							
<b>Compensation and Benefits</b>							
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%
<b>Total Expenses</b>	<b>319,037</b>	<b>344,519</b>	<b>319,726</b>	<b>(25,482)</b>	<b>-7%</b>	<b>24,793</b>	<b>8%</b>
<b>Economic Income</b>	<b>\$ 115,268</b>	<b>\$ 75,684</b>	<b>\$ 47,079</b>	<b>\$ 39,584</b>	<b>52%</b>	<b>\$ 28,605</b>	<b>61%</b>

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:

- (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):

- (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:

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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.

**Table of Contents****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
<b>(Dollars in Thousands)</b>				
<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		
Total	\$ 4,210,327	\$ 1,415,271	\$ 904,689	\$ 393,575

- (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:

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
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:

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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.

**Table of Contents****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:

<b>Contractual Obligations</b>	<b>2015</b>	<b>2016-2017</b>	<b>2018-2019</b>	<b>Thereafter</b>	<b>Total</b>
	<b>(Dollars in Thousands)</b>				
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)	1,415,271				1,415,271
<b>Consolidated Contractual Obligations</b>	<b>1,835,328</b>	<b>1,203,660</b>	<b>1,255,914</b>	<b>11,218,802</b>	<b>15,513,704</b>
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)
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$ 1,716,060</b>	<b>\$ 524,183</b>	<b>\$ 1,087,384</b>	<b>\$ 3,967,681</b>	<b>\$ 7,295,308</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, 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%

**Table of Contents****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,					
	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2013 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
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**

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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,					
	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2013 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	\$ 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 Increase in Interest Income from Floating Rate Assets
	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.



**Table of Contents****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:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Thousands)</b>	
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

**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statements of Financial Condition****(Dollars in Thousands, Except Unit Data)**

	December 31, 2014	December 31, 2013
<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>\$ 31,510,894</b>	<b>\$ 29,678,606</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>14,177,347</b>	<b>15,300,935</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>2,441,854</b>	<b>1,950,442</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>14,891,693</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 31,510,894</b>	<b>\$ 29,678,606</b>

continued

See notes to consolidated financial statements.



**Table of Contents****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>	<b>\$ 9,329,977</b>	<b>\$ 10,607,514</b>
<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>	<b>\$ 7,666,356</b>	<b>\$ 9,230,417</b>

See notes to consolidated financial statements.

**Table of Contents****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	4,374,262	3,544,057	1,593,052
Investment Income			
Realized	523,735	188,644	93,963
Unrealized	10,265	611,664	256,231
Total Investment Income	534,000	800,308	350,194
Interest and Dividend Revenue	69,809	64,511	40,354
Other	9,405	10,307	5,148
<b>Total Revenues</b>	<b>7,484,728</b>	<b>6,613,168</b>	<b>4,019,441</b>
<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	3,154,371	3,257,667	2,605,244
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>	<b>3,855,856</b>	<b>3,866,740</b>	<b>3,260,681</b>
<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>	<b>357,854</b>	<b>402,133</b>	<b>256,145</b>
<b>Income Before Provision for Taxes</b>	<b>3,986,726</b>	<b>3,148,561</b>	<b>1,014,905</b>

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Provision for Taxes	291,173	255,642	185,023
<b>Net Income</b>	<b>3,695,553</b>	<b>2,892,919</b>	<b>829,882</b>
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	74,794	183,315	103,598
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	335,070	198,557	99,959
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	1,701,100	1,339,845	407,727
<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>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	613,176,405	590,546,640	538,669,070
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	\$ 327,134	\$ 253,877	\$ 254,729

See notes to consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statements of Comprehensive Income****(Dollars in Thousands)**

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
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
<b>Comprehensive Income</b>	<b>3,637,629</b>	<b>2,902,815</b>	<b>831,741</b>
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	1,701,100	1,339,845	407,727
<b>Comprehensive Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 1,560,258</b>	<b>\$ 1,172,498</b>	<b>\$ 218,810</b>

See notes to consolidated financial statements.



**Table of Contents****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	Appro- priated 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.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statement of Changes in Partners' Capital**

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							Redeemable
	Common	Partners	Appropriated	Accumulated	Non-	Non-	Total	Non-
	Units	Capital	Partners	Other	Controlling	Controlling	Partners	Controlling
			Capital	Compre-	Interests in	Interests in	Capital	Interests in
				hensive	Consolidated	Blackstone		Consolidated
				Income	Entities	Holdings		Entities
<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.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statement of Changes in Partners' Capital****(Dollars in Thousands, Except Unit Data)**

<b>The Blackstone Group L.P.</b>								
	<b>Common Units</b>	<b>Partners Capital</b>	<b>Appro- priated Partners Capital</b>	<b>Accumulated Other Compre- hensive Income</b>	<b>Non- Controlling Interests in Consolidated Entities</b>	<b>Non- Controlling Interests in Blackstone Holdings</b>	<b>Total Partners Capital</b>	<b>Redeemable Non- Controlling Interests in Consolidated Entities</b>
<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 Allocation of Currency Translation Adjustment of Consolidated CLO Entities				(24,330)	(33,594)		(57,924)	
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 Relinquished with Deconsolidation and Liquidation of Partnership		421,363				386,703	808,066	
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	6,407,733	(35,469)			(82)	(783)	(36,252)	
Excess Tax Benefits Related to Equity-Based Compensation, Net Change in The Blackstone Group L.P.'s Ownership Interest		25,620					25,620	
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units						(9,032)		
	16,624,843	117,877				(117,877)		
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 3,415,356	\$ 4,416,070	\$ 14,891,693	\$ 2,441,854

See notes to consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statements of Cash Flows****(Dollars in Thousands)**

	<b>2014</b>	<b>Year Ended December 31, 2013</b>	<b>2012</b>
<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
<b>Net Cash Provided by Operating Activities</b>	<b>1,654,989</b>	<b>3,547,941</b>	<b>583,155</b>
<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
<b>Net Cash Used in Investing Activities</b>	<b>(24,425)</b>	<b>(165,904)</b>	<b>(222,981)</b>

continued

See notes to consolidated financial statements.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Consolidated Statements of Cash Flows**

(Dollars in Thousands)

	2014	Year Ended December 31, 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)
<b>Blackstone Funds Related</b>			
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	(1,049,907)	(3,259,614)	(405,411)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(183)	73	(5)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>580,474</b>	<b>122,496</b>	<b>(45,242)</b>
Cash and Cash Equivalents, Beginning of Period	831,998	709,502	754,744
Cash and Cash Equivalents, End of Period	\$ 1,412,472	\$ 831,998	\$ 709,502
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	\$ 116,296	\$ 125,361	\$ 80,159
Payments for Income Taxes	\$ 236,718	\$ 69,858	\$ 30,234
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 47,683	\$ 63,273	\$ 6,803
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (60,589)	\$ (18,537)	\$ (6,803)
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 16,181	\$ (6,029)	\$ (5,409)
Net Assets Related to the Consolidation of CLO Vehicles	\$ 8,398	\$	\$ 233,541
Net Assets Related to the Consolidation of Certain Fund Entities	\$ 354,080	\$ 659,001	\$ 50,224
In-kind Redemption of Capital	\$	\$	\$ (2,017)
In-kind Contribution of Capital	\$	\$ 2,323	\$ 2,017
Notes Issuance Costs	\$ 4,375	\$	\$ 4,788
Transfer of Interests to Non-Controlling Interest Holders	\$ (1,885)	\$ (2,403)	\$ (4,584)

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Change in The Blackstone Group L.P.'s Ownership Interest	\$ 9,032	\$ (2,519)	\$ (2,423)
Net Settlement of Vested Common Units	\$ 69,426	\$ 153,522	\$ 167,046
Conversion of Blackstone Holdings Units to Common Units	\$ 117,877	\$ 43,255	\$ 256,239
Acquisition of Ownership Interests from Non-Controlling Interest Holders Deferred Tax Asset	\$ (105,686)	\$ (113,757)	\$ (204,320)
Due to Affiliates	\$ 82,704	\$ 33,177	\$ 146,964
Partners' Capital	\$ 22,982	\$ 80,580	\$ 57,356
Issuance of New Units	\$	\$ 42,400	\$

See notes to consolidated financial statements.

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**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.





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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements Continued**

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**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 .



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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements Continued**

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**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

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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.

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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 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

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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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**Notes to Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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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**Notes to Consolidated Financial Statements Continued**

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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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**Notes to Consolidated Financial Statements Continued**

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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)
<b>Intangible Assets, Net</b>	<b>\$ 458,833</b>	<b>\$ 560,748</b>

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	57,884	142,221

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Balance, End of Year	\$ 458,833	\$ 560,748	\$ 598,535
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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:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
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
	\$ 22,765,589	\$ 21,729,523

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:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Realized Gains (Losses)	\$ 143,194	\$ 205,741	\$ (3,502)
Net Change in Unrealized Gains (Losses)	(20,127)	(26,800)	58,602
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	234,787	202,723	201,045
Other Income - Net Gains from Fund Investment Activities	\$ 357,854	\$ 381,664	\$ 256,145

**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

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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					
	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
<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)
Net Realized and Unrealized Gain from Investments	8,567,193	10,441,009	547,982	643,080	3,263	20,202,527
<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)



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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
<b>Total Assets</b>	<b>\$ 35,906,020</b>	<b>\$ 60,495,858</b>	<b>\$ 12,643,567</b>	<b>\$ 14,829,660</b>	<b>\$ 155,665</b>	<b>\$ 124,030,770</b>
<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>	<b>1,745,927</b>	<b>3,900,207</b>	<b>753,794</b>	<b>2,296,962</b>	<b>15,189</b>	<b>8,712,079</b>
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>	<b>\$ 35,906,020</b>	<b>\$ 60,495,858</b>	<b>\$ 12,643,567</b>	<b>\$ 14,829,660</b>	<b>\$ 155,665</b>	<b>\$ 124,030,770</b>
<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>	<b>\$ 9,180,145</b>	<b>\$ 13,958,080</b>	<b>\$ 1,145,393</b>	<b>\$ 2,466,238</b>	<b>\$ 38,965</b>	<b>\$ 26,788,821</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, 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>\$ 32,598,876</b>	<b>\$ 41,945,088</b>	<b>\$ 9,366,668</b>	<b>\$ 13,582,602</b>	<b>\$ 68,523</b>	<b>\$ 97,561,757</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>1,570,448</b>	<b>2,039,717</b>	<b>708,028</b>	<b>2,445,505</b>	<b>21,164</b>	<b>6,784,862</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>\$ 32,598,876</b>	<b>\$ 41,945,088</b>	<b>\$ 9,366,668</b>	<b>\$ 13,582,602</b>	<b>\$ 68,523</b>	<b>\$ 97,561,757</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 (Loss) from Investments	3,916,697	4,979,027	798,892	1,362,351	1,014	11,057,981
<b>Net Income (Loss)</b>	<b>\$ 4,208,119</b>	<b>\$ 5,298,084</b>	<b>\$ 774,745</b>	<b>\$ 1,920,591</b>	<b>\$ 29,079</b>	<b>\$ 12,230,618</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:

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	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)
	\$ 13,691	\$ (15,135)	\$ 8,593

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(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, 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	\$ 2,215,584	\$ 3,721,751	\$ 15,031	\$ 384,679	\$ 6,337,045

**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)
	\$ (1,227)	\$ 6,710	\$ 372

**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)

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Event Driven	191,704	(c)	(c)
Equity	360,132	(d)	(d)
Commodities	65,529	(e)	(e)
Private Equity	89,561	(f)	(f)
	\$ 1,224,319	\$	1,415

- (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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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				
	657,572	14,486	1,425,901	30,528	2,946,033	44,899	1,495,964	14,300
Total	\$ 719,650	\$ 15,009	\$ 1,425,901	\$ 30,528	\$ 2,946,033	\$ 44,899	\$ 1,495,964	\$ 14,300





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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</b>			
Interest Rate Swaps			
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	\$ 8,602	\$ 38,980	\$ (6,569)
<b>Net Change in Unrealized Gains (Losses)</b>			
Interest Rate Contracts	\$ (7,757)	\$ (1,947)	\$ 12,134
Foreign Currency Contracts	(31,728)	2,636	(5,523)
Other	5,193	392	
Total	\$ (34,292)	\$ 1,081	\$ 6,611

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.

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(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
	\$ 6,760,099	\$ 8,895,688
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 6,448,352	\$ 8,302,572
Subordinated Notes	348,752	610,435
	\$ 6,797,104	\$ 8,913,007

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

	2014		Year Ended December 31, 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
	\$ (59,562)	\$ (14,473)	\$ 41,831	\$ 173,606	\$ (33,271)	\$ 579,906
<b>Liabilities</b>						
Liabilities of Consolidated CLO Vehicles						

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Senior Secured Notes	\$ (6,626)	\$ (133,274)	\$ (6,078)	\$ (485,655)	\$ 17	\$ (603,250)
Subordinated Notes		108,611		96,991		(69,141)
	\$ (6,626)	\$ (24,663)	\$ (6,078)	\$ (388,664)	\$ 17	\$ (672,391)

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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)			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	\$ (5,323)	\$	\$	\$ (533)	\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(197,580)	4,369	(21,876)	(281,254)	57,837	(176,379)
Corporate Bonds	(7,814)			(1,789)		
	\$ (210,717)	\$ 4,369	\$ (21,876)	\$ (283,576)	\$ 57,837	\$ (176,379)

(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.

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(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			
	Level I	Level II	Level III	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>3,498,033</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		1,141,301	84,894	1,226,195
Other		50,850	10,159	61,009
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>378,857</b>	<b>1,192,151</b>	<b>95,053</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	7,310	107,210	146,251
	\$ 668,076	\$ 9,021,438	\$ 3,740,693	\$ 13,430,207
<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

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Foreign Currency Contracts	681	681
Credit Default Swaps	868	868
Securities Sold, Not Yet Purchased	85,878	85,878

\$ 1,357   \$ 115,049   \$ 6,797,104   \$ 6,913,510

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	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
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>54,624</b>	<b>9,107,872</b>	<b>3,358,752</b>	<b>12,521,248</b>
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
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>19,629</b>	<b>1,041,039</b>	<b>44,132</b>	<b>1,104,800</b>
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
	\$ 342,525	\$ 10,169,101	\$ 3,555,138	\$ 14,066,764
<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
	\$ 2,484	\$ 88,011	\$ 8,913,007	\$ 9,003,502



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- (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

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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:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
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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(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:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
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 + 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	3,498,033				

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

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>		
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
			10,159	NAV as Fair Value	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%
14,150	Transaction Price	N/A				N/A	
Other Investments	11,887	Transaction Price	N/A	N/A	N/A		
			2,719	NAV as Fair Value	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	\$ 3,740,693						
<b>Financial Liabilities</b>							
Liabilities of Consolidated CLO Vehicles	\$ 6,797,104	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		

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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, 2013:

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
<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
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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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
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	\$ 3,555,138				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 8,913,007	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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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

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 Year Ended December 31,							
	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	\$ 3,498,033	\$ 40,397	\$ 202,263	\$ 3,740,693	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ 58,563	\$ (4,048)	\$ (2,012)	\$ 52,503	\$ 261,403	\$ 258	\$ (13,117)	\$ 248,544

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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	\$ 6,448,352	\$ 348,752	\$ 6,797,104	\$ 8,302,572	\$ 610,435	\$ 8,913,007
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	\$ 127,011	\$ (79,423)	\$ 47,588	\$ 695,334	\$ (85,365)	\$ 609,969

- (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

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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:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
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	\$ 1,162,103	\$ 1,075,147

**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:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
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

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Other Assets	96,501	75,815
Freestanding Derivatives	3,290	10,343
Net Investment Hedges	523	
	\$ 338,557	\$ 284,472

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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	\$ 3,813	\$ 1,132	\$ 352	\$ 2,329

	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	\$ 38,560	\$ 30,570	\$ 7,893	\$ 97

The following tables present the offsetting of assets and liabilities as of December 31, 2013:

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	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	\$ 159,327	\$ 151,419	\$ 582	\$ 7,326



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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	\$ 320,634	\$ 319,377	\$ 1,257	\$

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:

	2014		December 31,		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%
	\$ 10,761,537	\$ 9,476,882	2.27%	\$ 12,639,548	\$ 11,475,413	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.

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- (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
	\$ 7,334,316			\$ 9,826,621		

- (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		
	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	\$ 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:

	Operating Borrowings	Blackstone Fund 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>\$ 2,135,000</b>	<b>\$ 7,341,193</b>	<b>\$ 9,476,193</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

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Foreign Income Tax	24,199	13,302	16,921
State and Local Income Tax	69,281	33,273	36,022
	228,673	65,812	58,871
<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
	62,500	189,830	126,152
Provision for Taxes	\$ 291,173	\$ 255,642	\$ 185,023

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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)	7.3%	8.1%	18.2%

(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	 \$ 1,252,230	 \$ 1,209,207
<b>Deferred Tax Liabilities</b>		
Depreciation and Amortization	\$ 10	\$ 10
 Total Deferred Tax Liabilities	 \$ 10	 \$ 10

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)
<b>Unrecognized Tax Benefits December 31</b>	<b>\$ 19,836</b>	<b>\$ 18,862</b>

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>	\$ 1,584,589	\$ 1,171,202	\$ 218,598
<b>Basic Net Income Per Common Unit</b>			
Weighted-Average Common Units Outstanding	608,803,111	587,018,828	533,703,606
Basic Net Income Per Common Unit	\$ 2.60	\$ 2.00	\$ 0.41
<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	4,373,294	3,527,812	4,965,464
Weighted-Average Diluted Common Units Outstanding	613,176,405	590,546,640	538,669,070
Diluted Net Income Per Common Unit	\$ 2.58	\$ 1.98	\$ 0.41
<b>Distributions Declared Per Common Unit (a)</b>	\$ 1.92	\$ 1.18	\$ 0.52

(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
<b>Unit Repurchase Program</b>			

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	Deferred Restricted Common Units	Equity Settled Awards Weighted-Average Grant Date Fair Value	Cash Settled Awards 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	33,498,237	\$ 26.19	17,569,372	\$ 16.95	1,455	\$ 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

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Total Equity-Based Awards	46,685,646	1.80
Phantom Units	1,293	0.90

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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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**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
	<b>\$ 1,128,408</b>	<b>\$ 1,192,044</b>

	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
	<b>\$ 1,490,088</b>	<b>\$ 1,436,859</b>

**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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**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)**

**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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**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)**

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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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>\$ 800,826</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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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,					
	Blackstone Holdings	2014 Current and Former Personnel	Total	Blackstone Holdings	2013 Current and 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	\$ 1,371	\$ 2,518	\$ 3,889	\$ 2,709	\$ 1,561	\$ 4,270

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.



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**Notes to Consolidated Financial Statements Continued**

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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, 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.

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**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.

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**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.

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(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					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	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)
<b>Total Management and Advisory Fees, Net</b>	<b>531,337</b>	<b>685,669</b>	<b>478,536</b>	<b>450,198</b>	<b>422,300</b>	<b>2,568,040</b>
<b>Performance Fees</b>						
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)
<b>Total Performance Fees</b>	<b>1,977,230</b>	<b>2,017,786</b>	<b>139,650</b>	<b>257,211</b>		<b>4,391,877</b>
<b>Investment Income (Loss)</b>						
Realized						
	202,719	309,095	21,550	9,354	707	543,425
Unrealized						
	(23,914)	(58,930)	5,132	5,055	860	(71,797)
<b>Total Investment Income</b>	<b>178,805</b>	<b>250,165</b>	<b>26,682</b>	<b>14,409</b>	<b>1,567</b>	<b>471,628</b>
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
<b>Total Revenues</b>	<b>2,715,924</b>	<b>2,986,680</b>	<b>657,837</b>	<b>742,548</b>	<b>434,305</b>	<b>7,537,294</b>
<b>Expenses</b>						
Compensation and Benefits						
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)

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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
<b>Total Expenses</b>	<b>896,184</b>	<b>1,105,799</b>	<b>259,965</b>	<b>411,811</b>	<b>319,037</b>	<b>2,992,796</b>
Economic Income	\$ 1,819,740	\$ 1,880,881	\$ 397,872	\$ 330,737	\$ 115,268	\$ 4,544,498
<b>Segment Assets</b>	<b>\$ 6,135,072</b>	<b>\$ 8,032,854</b>	<b>\$ 1,472,992</b>	<b>\$ 2,592,313</b>	<b>\$ 866,392</b>	<b>\$ 19,099,623</b>

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(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)
<b>Total Management and Advisory Fees, Net</b>	<b>459,451</b>	<b>622,036</b>	<b>406,557</b>	<b>386,415</b>	<b>411,619</b>	<b>2,286,078</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	329,993	486,773		127,192		943,958
Incentive Fees		45,862	207,735	220,736		474,333
<b>Unrealized</b>						
Carried Interest	398,232	1,651,700		108,078		2,158,010
Incentive Fees		(28,753)	7,718	1,107		(19,928)
<b>Total Performance Fees</b>	<b>728,225</b>	<b>2,155,582</b>	<b>215,453</b>	<b>457,113</b>		<b>3,556,373</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
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
<b>Unrealized</b>						
Carried Interest	249,775	402,560	18,307	18,049	(886)	687,805
Incentive Fees	15,602	21,563	7,605	18,146	8,020	70,936
Other	4,259	3,384	688	527	1,450	10,308
<b>Total Investment Income (Loss)</b>	<b>458,366</b>	<b>784,767</b>	<b>36,304</b>	<b>40,772</b>	<b>(1,231)</b>	<b>1,278,978</b>
<b>Total Revenues</b>	<b>1,457,312</b>	<b>3,205,125</b>	<b>648,610</b>	<b>880,250</b>	<b>420,203</b>	<b>6,611,500</b>
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	236,120	294,222	136,470	186,514	262,314	1,115,640
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	38,953	148,837		69,411		257,201
Incentive Fees		23,878	65,793	111,244		200,915
<b>Unrealized</b>						
Carried Interest	342,733	566,837		57,147		966,717
Incentive Fees		(15,015)	2,856	508		(11,651)
<b>Total Compensation and Benefits</b>	<b>617,806</b>	<b>1,018,759</b>	<b>205,119</b>	<b>424,824</b>	<b>262,314</b>	<b>2,528,822</b>
Other Operating Expenses	124,137	116,391	66,966	96,940	82,205	486,639

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Total Expenses	741,943	1,135,150	272,085	521,764	344,519	3,015,461
Economic Income	\$ 715,369	\$ 2,069,975	\$ 376,525	\$ 358,486	\$ 75,684	\$ 3,596,039
Segment Assets	\$ 4,444,227	\$ 7,496,591	\$ 1,325,631	\$ 2,381,603	\$ 781,469	\$ 16,429,521

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	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)
<b>Total Management and Advisory Fees, Net</b>	<b>442,748</b>	<b>608,394</b>	<b>344,984</b>	<b>381,148</b>	<b>357,712</b>	<b>2,134,986</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	109,797	165,114		52,511		327,422
Incentive Fees		25,656	83,433	192,375		301,464
<b>Unrealized</b>						
Carried Interest	148,381	683,764		162,045		994,190
Incentive Fees		(119)	9,042	(38,234)		(29,311)
<b>Total Performance Fees</b>	<b>258,178</b>	<b>874,415</b>	<b>92,475</b>	<b>368,697</b>		<b>1,593,765</b>
<b>Investment Income</b>						
<b>Realized</b>						
	25,823	45,302	7,270	15,611	1,392	95,398
<b>Unrealized</b>						
	85,337	90,875	8,517	4,769	1,348	190,846
<b>Total Investment Income</b>	<b>111,160</b>	<b>136,177</b>	<b>15,787</b>	<b>20,380</b>	<b>2,740</b>	<b>286,244</b>
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
<b>Total Revenues</b>	<b>828,059</b>	<b>1,634,328</b>	<b>459,201</b>	<b>778,381</b>	<b>366,805</b>	<b>4,066,774</b>
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	222,709	271,122	119,731	182,077	235,137	1,030,776
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	3,679	62,418		30,336		96,433
Incentive Fees		13,060	23,080	103,902		140,042
<b>Unrealized</b>						
Carried Interest	58,555	165,482		97,562		321,599
Incentive Fees		(583)	1,317	(45,262)		(44,528)
<b>Total Compensation and Benefits</b>	<b>284,943</b>	<b>511,499</b>	<b>144,128</b>	<b>368,615</b>	<b>235,137</b>	<b>1,544,322</b>
Other Operating Expenses	130,845	123,714	57,809	84,488	84,589	481,445
<b>Total Expenses</b>	<b>415,788</b>	<b>635,213</b>	<b>201,937</b>	<b>453,103</b>	<b>319,726</b>	<b>2,025,767</b>



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Economic Income	\$ 412,271	\$ 999,115	\$ 257,264	\$ 325,278	\$ 47,079	\$ 2,041,007
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**Table of Contents****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:

	<b>December 31, 2014 and the Year Then Ended</b>		
	<b>Consolidation</b>		
	<b>Adjustments</b>		
	<b>Total</b>	<b>and Reconciling</b>	<b>Blackstone</b>
	<b>Segments</b>	<b>Items</b>	<b>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	\$ 12,411,271(e)	\$ 31,510,894

	<b>December 31, 2013 and the Year Then Ended</b>		
	<b>Consolidation</b>		
	<b>Adjustments</b>		
	<b>Total</b>	<b>and Reconciling</b>	<b>Blackstone</b>
	<b>Segments</b>	<b>Items</b>	<b>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
Total Assets	\$ 16,429,521	\$ 13,249,085(e)	\$ 29,678,606

	<b>Year Ended December 31, 2012</b>		
	<b>Consolidation</b>		
	<b>Adjustments</b>		
	<b>Total</b>	<b>and Reconciling</b>	<b>Blackstone</b>
	<b>Segments</b>	<b>Items</b>	<b>Consolidated</b>
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:

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	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)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 357,854</b>	<b>\$ 402,133</b>	<b>\$ 256,145</b>

**Table of Contents****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	\$ 3,986,726	\$ 3,148,561	\$ 1,014,905

- (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	\$ 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 - Basic and Diluted				
Common Units - Basic	\$ 0.44	\$ 0.85	\$ 0.41	\$ 0.90

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Common Units	Diluted	\$	0.44	\$	0.85	\$	0.41	\$	0.89
Distributions Declared (a)		\$	0.58	\$	0.35	\$	0.55	\$	0.44

**Table of Contents****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)**

	<b>March 31, 2013</b>	<b>June 30, 2013</b>	<b>September 30, 2013</b>	<b>December 31, 2013</b>
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

(a) Distributions declared reflects the calendar date of the declaration of each distribution.

**Table of Contents****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>	<b>\$ 19,099,623</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,510,894</b>
<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>	<b>6,310,024</b>	<b>9,017,698</b>	<b>(1,150,375)</b>	<b>14,177,347</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,441,854</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>\$ 19,099,623</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,510,894</b>

**Table of Contents****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>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>
<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>	<b>5,751,166</b>	<b>9,624,174</b>	<b>(74,405)</b>	<b>15,300,935</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>1,950,442</b>		<b>1,950,442</b>
<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>	<b>10,678,355</b>	<b>2,232,136</b>	<b>(483,262)</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>

(a) The Consolidated Blackstone Funds consisted of the following:  
Blackstone AG Investment Partners L.P.\*

Blackstone Distressed Securities Fund L.P.



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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

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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.

**Table of Contents****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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
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 Bassler 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.

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**Table of Contents****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.



**Table of Contents****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.

**Table of Contents****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' 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					