To get the economy going again...

The Blackstone Group®

Annual Report 2008

Contents/

will take strong institutions willing to invest capital long term.

We have a deep pool of resources to invest in the future.

1. With $27 billion in uninvested capital in Blackstone's private equity, real estate and credit oriented funds, we have a deep pool of resources to invest in the future.[1]
2. Our Limited Partner capital is committed to Blackstone funds for the long term — generally ten years — eliminating the possibility of redemptions.
3. In 2008 Blackstone's GSO business provided $1.77 billion in loans.
4. We closed on $3.3 billion of new private equity investments in 2008, focusing on non-cyclical businesses.
5. At $12.2 billion, we believe we have the largest pool of capital available for potential global real estate investments.

1 As of February 27, 2009.

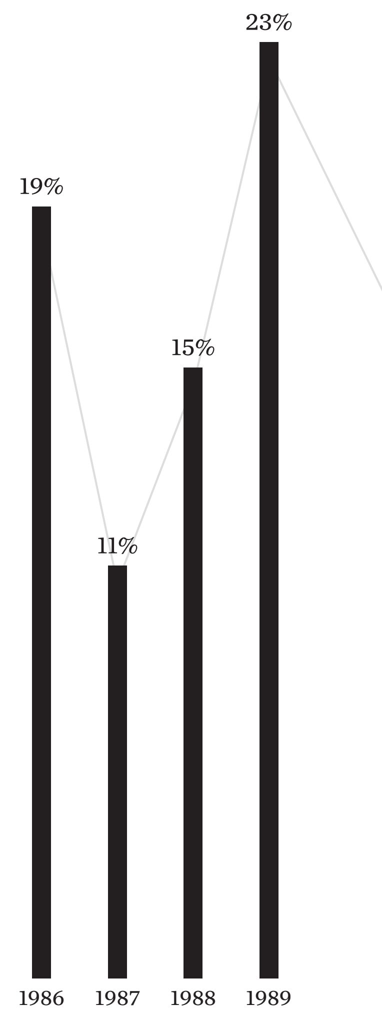
27

$27 BILLION IN UNINVESTED CAPITAL[1]

Our experience over the past 23 years indicates that the best investment opportunities often come at the bottom of an economic cycle.

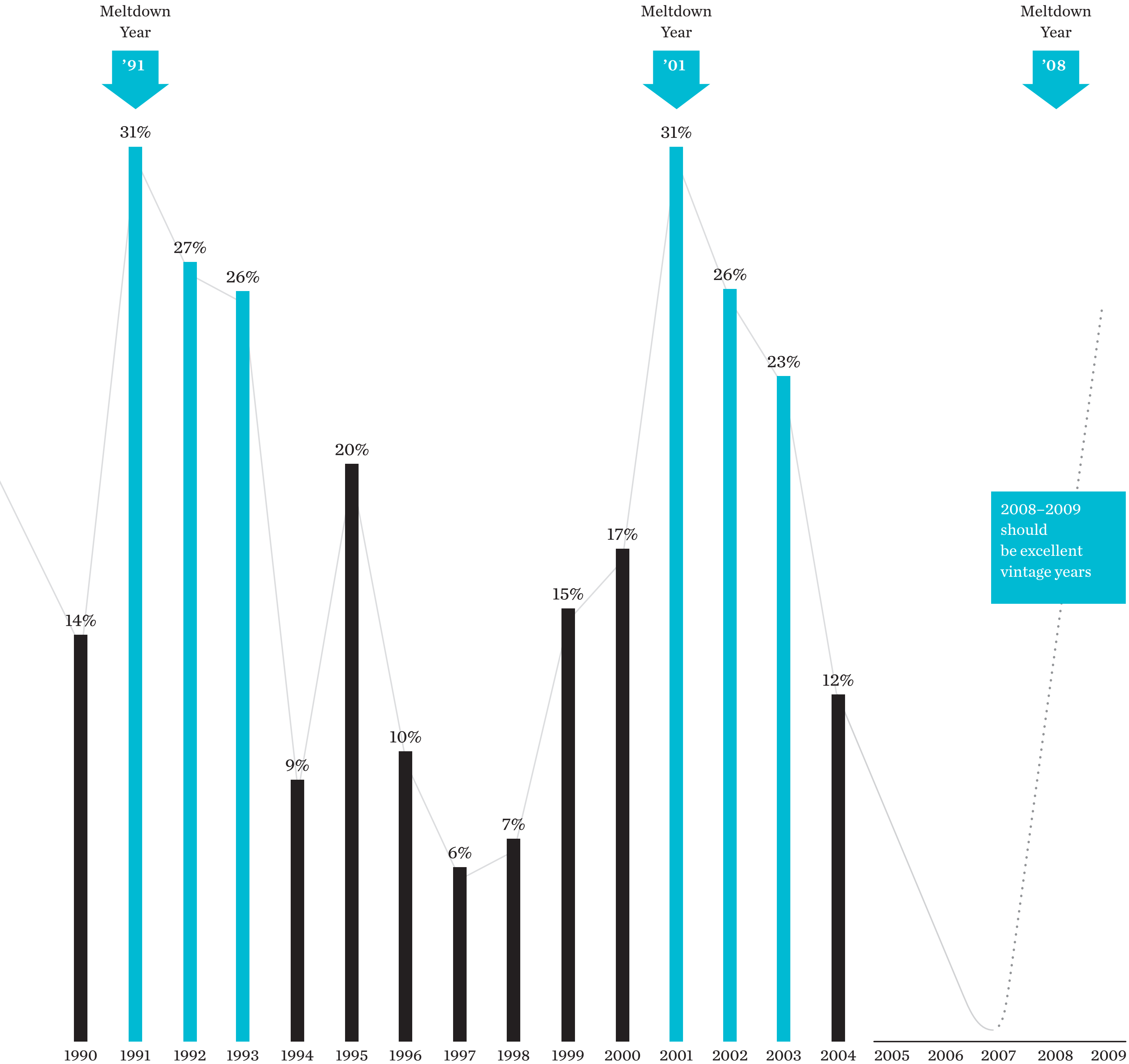
Private Equity Industry Returns Across Cycles

As shown in this chart setting forth returns for all U.S. private equity funds as a group over the past 20 years, the private equity industry has generated some of its highest returns to limited partners from investments made during trough years in the economic cycle.



Source: Cambridge Associates LLC, U.S. Private Equity pooled mean net IRR to limited partners by vintage year as of September 30, 2008.

Returns are net of fees, expenses and carried interest. Vintage year funds formed since 2004 are too young to have produced meaningful returns.


Meltdown Year
'91
Meltdown Year
'01
Meltdown Year
'08
31%
27%
26%
14%
9%
20%
10%
6%
7%
15%
17%
31%
26%
23%
12%
2008–2009 should be excellent vintage years
1990
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2009

Our capital touches almost a million lives.

1,0

1 The more than 50 companies in our Private Equity portfolio employ a total of 992,870 people as of December 31, 2008.

2 The firm's proprietary Portfolio Operations platforms harness spending from a portfolio of 40+ companies with combined revenues of more than $110 billion to maximize purchasing efficiencies. We estimate that our procurement efforts and a new healthcare initiative have together resulted in estimated annual savings for the firm's portfolio companies of $215 million to $235 million.

3 Our Advisory Group has helped major companies in their restructuring efforts — in 2008 we advised such companies as Ford, General Motors, Procter & Gamble and Northern Rock.

NEARLY 1 MILLION EMPLOYED THROUGH BLACKSTONE PORTFOLIO COMPANIES AS OF DECEMBER 31, 2008

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Our business is structured for stability and staying power.

1. The balance sheet as of December 31, 2008 reflected a strong cash position of $504 million and, with $693 million in pending redemptions from liquid Blackstone Funds, available cash totaled $1.2 billion. An additional $297 million was invested in liquid Blackstone funds and there was only $250 million in borrowings at the corporate level.

2. Management and advisory fees were $1.5 billion for 2008.

3. Due to the stability of our client relationships and long-term track record of preserving capital, net external inflows for Marketable Alternative Asset Management (MAAM) were $8.4 billion in 2008 — our strongest year.

1.2

$1.2 BILLION—CASH POSITION AS OF DECEMBER 31, 2008

"The application of Blackstone's large capital resources, global reach and disciplined investment approach will transform today's challenges into tomorrow's opportunities."

Stephen A. Schwarzman
Chairman,
Chief Executive Officer
and Co-Founder

Dear Fellow Unitholders,

We ended 2008 and begin 2009 in one of the most challenging equity, credit and economic environments since the Great Depression. Economies around the world have all weakened significantly and, in the case of most developed nations, have declined very sharply. Liquidity in the global banking system and capital markets has collapsed, restricting borrowing opportunities for most individuals and corporations.

Almost every asset class, including equities, debt and commodities, has been sharply devalued, and financial services companies' earnings and stocks have been among the hardest hit. Blackstone's financial results and share price have not been spared. While we advised purchasers of our units at the time of the IPO almost two years ago that our firm would be subject to cyclical forces—despite our compelling long-term growth story—no one expected the extreme decline that most financial services stocks (including ours) have experienced.

This severe economic disruption has changed the investment landscape in which Blackstone operates. Institutional investors that once would have sought only the highest possible returns with acceptable risk will now focus to a much greater degree on balancing returns with safety and stability. These institutions will increasingly seek custom-tailored products to satisfy their specific needs, as well as the longer-term limited partnerships they have used in the past. At the same time, the entire financial industry will undergo profound change, as those banks, insurance companies and investment firms that accepted government capital will likely become more risk-averse and less nimble competitors.

While hardly any institution or individual was immune to this dramatic downturn, the question now is who will be most adept and best positioned to forge ahead across this altered landscape.

Blackstone is extremely well positioned for the volatile environment that we find ourselves in today, and for the emerging financial markets of tomorrow. Our business has been built to last—by a seasoned team that has navigated many market cycles. We have a rock solid balance sheet and strong liquidity: at year-end we had $1.2 billion in cash and pending redemptions from Blackstone liquid funds, exceeding all outstanding borrowings. Since the end of 2008, we fully paid down our revolving line of credit. Our business also generates steady cash flow from management and advisory fees in excess of our operating expenses, based on long-term contracts.

In addition, Blackstone is not like most firms in the financial services industry. We are long-term investors and we are patient. That means we can hold existing investments until markets are higher and more liquid and can exit at full value, rather than being forced to sell into a rapidly deleveraging market. And that allows us to be more aggressive in a depressed environment when we can deploy capital to the maximum benefit of our investors at the right time.

We also have a broadly diversified portfolio of businesses, giving us numerous avenues for value creation. For example, our Financial Advisory group delivered record fees last year by meeting the demand for a trusted, independent advisor in restructuring and M&A transactions. Our GSO credit businesses are already seeing once-in-a-generation investment opportunities in the credit markets. And we expect our Private Equity and Real Estate funds to benefit from similar opportunities in the next several years. Overall, as of February 27, 2009, we have dry powder in the form of approximately $27 billion in funds to invest when we believe values are compelling.

In short, while many financial institutions must now focus inward, on rebuilding capital and repairing damaged balance sheets, we are able to focus outward, on capturing opportunities for our investors. With our reputation for performance, integrity and insight, we are a sought-after partner for clients and investors seeking to profit from the changing investment climate. It is also reasonable to expect consolidation in the alternative asset industry, as firms that have felt the impact of the market dislocation are compelled to combine with stronger entities. Blackstone may be able to add valuable new business areas and talent in these circumstances, although we will be highly selective and sensible in evaluating expansion opportunities.

Historically, severe economic dislocation has yielded many of the best investment opportunities, and I believe that will be true in this case. With the extreme conditions faced by many financial institutions in the past year, values were stressed by unprecedented de-levering and technical pressures in the marketplace. This forced both good and bad assets to be liquidated in an indiscriminate fashion, which ultimately should lead to opportunities to acquire quality assets at highly attractive valuations.

While I believe that the actions of governments throughout the world to support their financial institutions and markets will ultimately have a stabilizing effect, it is impossible to predict how long the economic recovery period may take. What I can promise my fellow Blackstone unitholders is this: we will manage the firm's balance sheet capital prudently; we will administer capital for investments conservatively; and we will continue to run the business for long-term sustainability and earnings growth.

2008 Financial Performance

In 2008, leading global institutional investors continued to place their trust in Blackstone and in our long-term track

Left to Right
J. Tomilson Hill
Laurence A. Tosi
Hamilton E. James
Jonathan D. Gray
Stephen A. Schwarzman

record of performance. Fee-earning Assets Under Management (AUM) rose last year, in sharp contrast to the outflows experienced by the vast majority of asset managers. As of December 31, 2008, fee-earning AUM totaled $91 billion, an increase of 9% from year-end 2007.

Blackstone generated cash fees of $1.5 billion in 2008, which drove Net Fee-Related Earnings to a record $428 million. This favorable result was due largely to the growth in fee-earning AUM and the strong revenue performance of our Financial Advisory group. As a result, we remained solidly cash flow positive, with Adjusted Cash Flow from Operations of $129 million.

The increase in base management fee revenue was offset, however, by lower fair values across our Private Equity, Real Estate and Marketable Alternative Asset Management segments and a decline in the value of the firm's invested capital in our own funds. As a result of the mark-to-market impact, Total Reportable Segment Revenues were ($442) million in 2008 and Economic Net Income (ENI) was ($1.33) billion.

The markdowns are disappointing, but do not necessarily represent permanent loss of value. For an historical perspective, we looked at selected investments made by our fund initiated prior to the 2002–2003 downturn and marked those investments using FAS 157 as required today. Those investments (which were all purchased ahead of the market's decline) would have suffered reductions in carrying value on the order of 70%, to an aggregate value equal to a 0.3x multiple of our invested capital. Ultimately, those investments were sold or are currently publicly trading at an aggregate of 2.3x total invested capital or almost eight times trough value, a far better outcome than could have been anticipated looking just at FAS 157 mark-to-market accounting. As our investors, you should understand that markdowns under FAS 157 do not necessarily reflect the ultimate investment results.

Blackstone declared priority distributions totaling $0.90 per common unit for fiscal 2008. Based on the lack of cash flow in the fourth quarter, we did not declare a distribution for that period. Blackstone personnel and others, who own 75% of the firm, did not receive any distributions on their holdings units for the year. Changes made to Blackstone's liquid investments should considerably reduce our cash flow volatility this year.

Business Unit Performance

Each of Blackstone's business units has responded to the macroeconomic environment in decisive ways that have left them well positioned to weather the present challenges and realize future opportunities.

In Private Equity, we have confidence in the quality of the portfolio, the structure of our portfolio companies' debt and our ability to generate superior long-term returns. Most of our portfolio companies achieved flat or higher EBITDA in 2008 compared with 2007. We structured the portfolio company balance sheets of our current fund initiated in 2006 with an eye towards the long term: nearly 60% of them have no maintenance covenants on debt and 84% of portfolio company debt maturities fall after 2012. Our portfolios are not representative of the market as a whole, as our focus since 2006 has been on defensive sectors such as healthcare and food distribution. But, like virtually all businesses today, we certainly are not recession-proof and any further deterioration in economic conditions would undoubtedly have an adverse impact on our results.

We closed on $3.3 billion of new private equity investments in 2008, focusing on non-cyclical businesses, while also increasing our activity in Asia, where growth has been stronger. Major acquisitions this year included The Weather Channel, Performance Food Group, AlliedBarton Security Services and Apria Healthcare Group. We also made an equity investment in China National Bluestar (Group) Corporation, China's premier specialty chemical company, and committed to three new investments in India.

In Real Estate we have exceptional staying power thanks to our stable debt structures, high-quality properties around the world and significant capital. Recognizing that real estate values were at high levels, we sold more than $60 billion in real estate assets over the past few years, using the proceeds to significantly de-lever those assets. Our portfolio today is largely funded with non-recourse, long-term financing. Overall, only 4% of our real estate debt comes due before 2011 and the bulk of our assets are cash flow positive.

Our various real estate funds have $12.2 billion in dry powder as of February 27, 2009 — one of the largest pools of private capital available for investment in real estate. Today, we are seeing the most attractive opportunities in real estate debt, where we can get high yields with very little credit risk. We expect, however, significant opportunities to acquire major property portfolios to emerge over the next several years due to forced asset sales.

The Marketable Alternative Asset Management (MAAM) business is mainly composed of BAAM, our funds of hedge funds, and GSO Captial Partners. While BAAM's performance declined in 2008, marking only the second down year in its 18-year history, its decline was less than half of the declines in most global market indices. Our early recognition of potential industry-wide liquidity issues led us to implement appropriate defensive portfolio strategies, keeping higher cash levels and avoiding leverage in the funds of hedge funds. Our proprietary risk models and our rigorous due diligence processes allowed us to avoid the noteworthy implosions and

Left to Right
John Studzinski
Robert L. Friedman
Bennett Goodman
Joan Solotar
Chad R. Pike
Kenneth C. Whitney
Arthur B. Newman
Sylvia F. Moss
Garrett M. Moran

frauds in the hedge fund universe. Due to the stability of our client relationships and long-term track record of preserving capital, BAAM had net external inflows of $4.2 billion in 2008 — our second strongest year.

GSO's credit businesses, in a year in which so many funds experienced net outflows, were not immune to negative marks stemming from the stress in the credit environment. Yet GSO still outperformed benchmarks and had net inflows of $4.6 billion in 2008. GSO is well positioned to deliver value by using its credit expertise and capital to purchase high-quality, senior secured bank debt with little risk and provide rescue financing solutions to companies in need of liquidity. The Blackstone/GSO Capital Solutions fund is being created to generate attractive returns by investing in sound companies that are otherwise unable to obtain financing in today's marketplace.

Our Financial Advisory business had a record year, generating $411 million in fee revenues as the economic dislocation created demand for transactions such as asset sales, restructurings and reorganizations. The independence and strategic perspective of our Financial Advisory group are highly desirable qualities — particularly as the major banks and securities firms that traditionally compete for advisory engagements have been distracted by their own financial challenges.

A high percentage of our advisory work involved out-of-court restructuring assignments for clients. Among our major advisory engagements initiated in 2008, Blackstone was named the global restructuring coordinator for AIG. Our Financial Advisory Group worked with several companies, such as Northern Rock, Ford and General Motors, to restructure balance sheets that had become vulnerable due to the collapse of the credit markets and the economic downturn. We served as principal advisors to Procter & Gamble in connection with a transaction that facilitated the spin-off of its Folgers business. Also, we advised the China Development Bank with respect to its investment in Barclays PLC and Chinalco on a pending major transaction with Rio Tinto Inc.

Getting the Global Economy Moving

While many nations are now pursuing economic stimulus plans, we know that getting the world economy moving again will take more than government intervention alone. It will require institutions that are willing to invest private capital for the long term. Studies show that the private equity sector has been a reliable source of seed capital for growing businesses, while also driving operational improvements, creating thousands of jobs and supporting R&D and capital investment at portfolio companies. I believe this track record must — and will — continue going forward.

At Blackstone, we are actively doing our part in the economic renewal effort. We formed a dedicated team to focus on investments in the clean-tech energy sector, and already have made capital commitments in wind and hydroelectric power projects. We are helping strapped homeowners stay in their homes by investing in Bayview Asset Management, a mortgage-backed security manager and mortgage servicer with a solid track record of facilitating loan modifications and workouts. Similarly, the mezzanine lending provided by GSO is assisting growing, credit-worthy companies that would not otherwise have access to bank credit in this environment. Over time, I firmly believe that the returns generated by our funds will help to replenish the assets of pension funds and other investors that have been depleted in the current equity market. This will help states, municipalities and corporations return their pension funds to healthy status and reduce pressure on their budgets in these difficult economic times.

We also have continued to build our international capabilities, with an eye toward supporting and participating in more opportunities on a global scale. In late 2008, we signed a memorandum of understanding with the National Pension Service of Korea to create a co-investment fund for that country. Further expanding our global presence, we opened a representative office in Beijing last year and established a team in Turkey.

Vision, Value and Opportunity

If anything, the calamitous market conditions of the past year have reaffirmed the wisdom of our guiding vision for Blackstone — a vision of a company with the ability to withstand economic cycles and deliver long-term value for investors. I am confident that today's challenges will become tomorrow's opportunities, through the application of Blackstone's large capital resources, global reach and disciplined investment approach. Our past investments have been structured to maximize the preservation of investors' capital while delivering top quartile investment returns. We have the capacity to take advantage of the compelling new investments that will arise out of the market turmoil. By doing so, I firmly believe we will not only continue to deliver value for our investors, but also will help restore and renew economic growth.

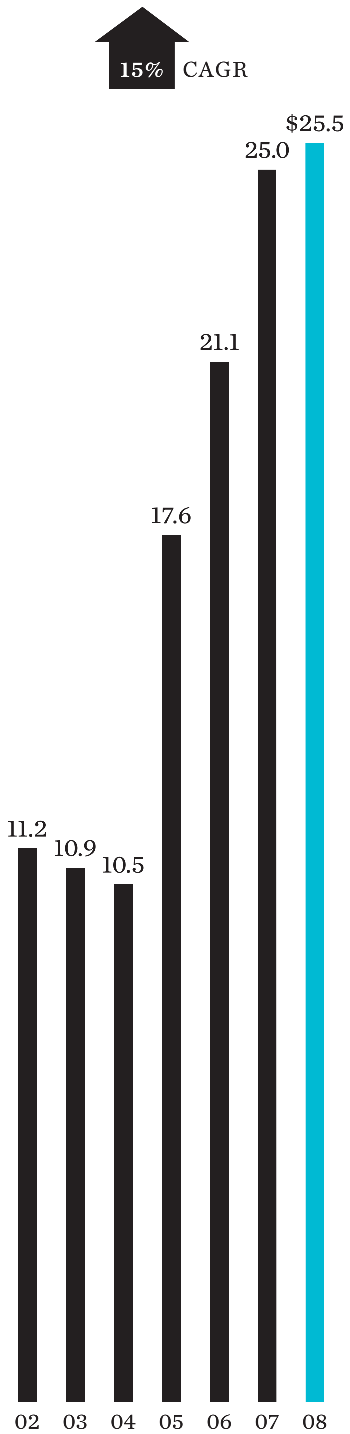
Sincerely,

Steve

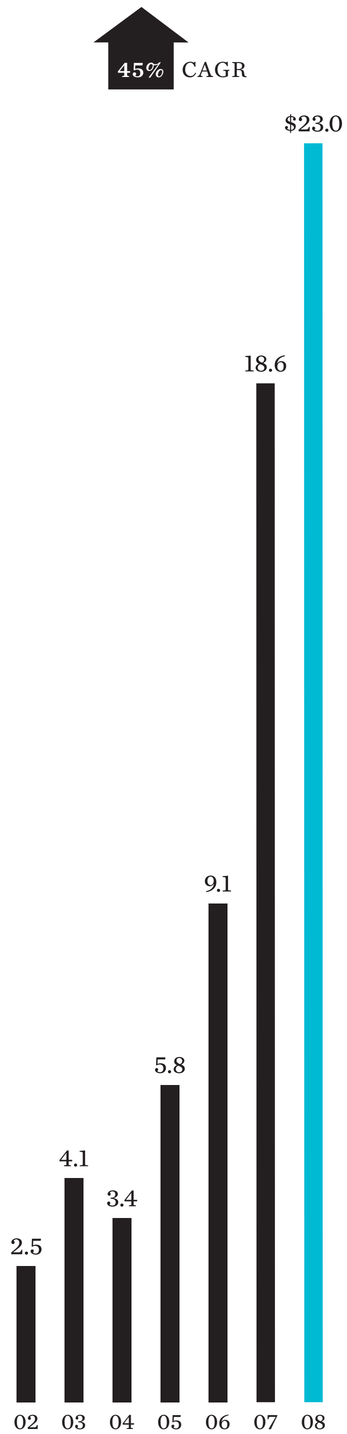
Stephen A. Schwarzman
Chairman, Chief Executive Officer
and Co-Founder

Blackstone At a Glance

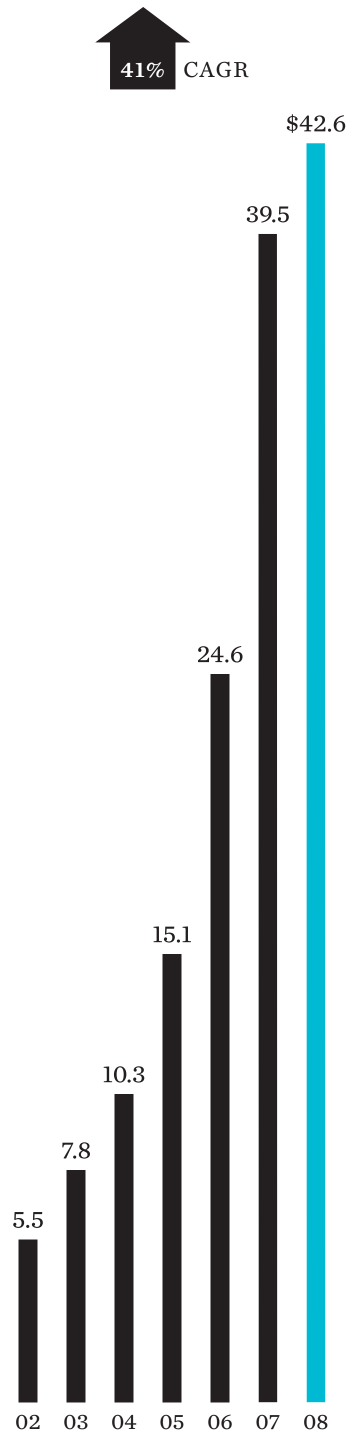
Fee Earning Assets
Private Equity
As of Year-End (Dollars in Billions)



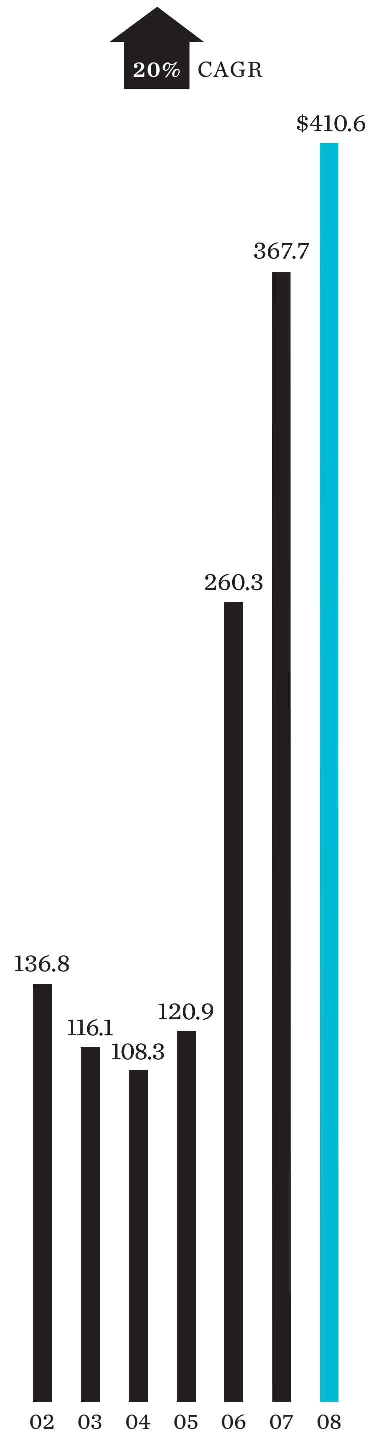
Fee Earning Assets
Real Estate
As of Year-End (Dollars in Billions)



Fee Earning Assets
MAAM
As of Year-End (Dollars in Billions)



Financial Advisory
Revenues
Year-Ended (Dollars in Millions)



Providing Capital—Promoting Opportunity

The investments and advisory assignments Blackstone has been involved in during 2008 are widely diversified by industry, region and transaction structure, reflecting our belief that a broad range of opportunities can be found despite a challenging global marketplace.

In a number of cases, we have made investments supporting the development of alternative sources of energy in places ranging from the United States to Uganda. Advisory engagements are focused on restoring the fiscal health of corporations, or even nations, struggling against strong economic headwinds. We also have invested in a more cost-effective model for quality healthcare. Quite a few of our projects reflect the increasing globalization of economic activity, as we support the growth of promising companies across borders.

What all of our activities have in common is Blackstone's disciplined approach, and our ability to tap into global capital flows and pursue opportunities on an international scale.

1 Investing in Cleantech Innovation *Coskata*

Blackstone Cleantech Venture Partners, a late-stage venture capital fund that focuses on renewable energy opportunities, was the lead investor in a Series C equity financing round for Coskata, Inc. A cellulosic ethanol company based in Warrenville, Illinois, Coskata will use the funding to complete its demonstration ethanol production facility and to initiate engineering and design work on its first full-scale commercial plant.

By leveraging proprietary microorganisms and innovative bioreactor designs, Coskata expects to dramatically improve the economics of ethanol production. Coskata's process will produce next-generation ethanol from a wide variety of non-food feedstocks, such as wood, energy crops or municipal solid waste, at an expected operating cost approaching $1 per gallon.

Coskata met the Cleantech fund's strict investment criteria: a proven technology addressing a large market opportunity; superior economics; seasoned management with experience in the energy and industrial sectors; a positive environmental impact; and a projected return on an investment that exceeds the fund's returns target.

2 Building a Specialty Chemical Leader *China Bluestar*

Reflecting a strong belief in the future growth of the Chinese economy, Blackstone has invested approximately $530 million to date to acquire a 20% stake in China National Bluestar (Group) Corporation.

China Bluestar is a successful international specialty chemical company with over $5 billion in revenues and 32 world-class manufacturing facilities. The new capital, along with Blackstone's deep experience as a longtime investor in such chemical industry giants as Celanese and Nalco, will help Bluestar grow and expand to even greater global prominence.

The transaction is a clear example of Blackstone's approach to maximizing opportunities in China and throughout Asia — committing its extensive financial and intellectual capital to forge constructive partnerships with established local enterprises.

3 A Trusted, Independent Advisor

AIG

Blackstone's Financial Advisory Group is working as global restructuring advisor to AIG, one of the world's largest insurance and financial services firms. Since September 2008 the Blackstone team has assisted AIG in evaluating alternatives for the company and coordinating the divestment of certain subsidiaries.

Ford

Ford Motor Company engaged Blackstone as its financial advisor to assist in reducing its overall debt burden. Blackstone played a critical role in structuring and executing debt tender offers which significantly reduced interest expense and strengthened the financial position of the company.

Procter & Gamble

The global consumer products giant Procter & Gamble has engaged Blackstone for a number of acquisition and divestiture assignments. Most recently, Blackstone devised a custom-tailored transaction in which P&G's Folgers coffee assets were simultaneously spun off and acquired by J.M. Smucker.

4 Bringing Quality Healthcare Home
Apria

Providing high-quality health services to patients in their own homes is the mission of Apria Healthcare Group, Inc., which was acquired by a Blackstone private equity fund in 2008.

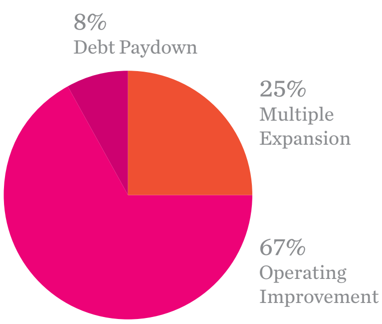
Apria provides home respiratory therapy, home infusion therapy and home medical equipment to patients in all 50 states, and holds the #1 or #2 position in most of the segments it serves. As the U.S. healthcare system evolves, there is a growing trend toward home-based care — which is a more convenient alternative for patients, frees up hospital beds that can then be devoted to non-ambulatory illnesses and provides a cost-effective solution for providers. Due to the strength of Apria's business model, Blackstone was able to arrange a capital structure consisting of senior debt and an asset-backed facility, despite the tight credit market.

A pioneer in expanding the range of services that can be performed in the comfort of a patient's home, Apria looks forward to extending its programs of compassionate home care under Blackstone's ownership.

Creating Value Through Operations

1 Blackstone Private Equity funds have created $19.3[1] billion in value, reflected in realized and unrealized gains in BCP and BCOM funds as of December 31, 2008. Of that amount, $12.9 billion came from operating improvements.

2 Most of the gains came from the operating improvements driven by our Portfolio Operations Group, which provides hands-on support in areas such as lean process redesign, supply chain/procurement, pricing/sales force optimization, healthcare benefits, business systems/financial controls and IT/operations.



25% Multiple Expansion
$4.9 billion

Drives

67% Operating Improvement
$12.9 billion

8% Debt Paydown
$1.5 billion

1 Reflects investments with gains only and excludes unrealized foreign exchange gains/losses in BCP and BCOM funds as of December 31, 2008.

Investing for Growth

Corporate Private Equity

Blackstone is a global leader in the private equity fund business. Our private equity funds invest in diverse companies, both large and small, with excellent potential to expand their business. We strive to realize that potential by partnering with strong management teams, driving operational improvements and supporting focused growth strategies. Fee earning assets under management in our private equity funds totaled $25.5 billion at the end of 2008, and our investment returns have consistently placed Blackstone among the top private equity fund managers.

We believe the current economic environment offers unusual opportunities to add quality companies to our portfolios. With the steep decline in markets worldwide, valuations have become considerably more attractive. Blackstone's substantial capital, ability to operate on a global scale, and long-term perspective should enable us to invest in and build businesses that will be tomorrow's high-performance engines of economic growth and return significant value for our investors.

In 2008 our private equity portfolio companies continued to support growth on a global scale. Along with our partners Bain Capital and NBC Universal, we purchased The Weather Channel, the third most distributed cable network, seen in more than 97% of cable television homes in the U.S. With the purchase of Apria, Blackstone invested in a leading home healthcare services company. We launched our Cleantech Energy Group to pursue opportunities in much-needed alternative energy sources worldwide and have already made two such investments. Another recently inaugurated group is focused on making investments in global infrastructure projects. In total, our corporate private equity funds have significant equity investments in more than 50 companies around the world, employing 992,870 people as of December 31, 2008.

Blackstone's Portfolio Operations Group is a major factor in making our private equity portfolio companies more productive, efficient and valuable. Group members are experienced operators and consultants who have led or advised on the improvement of numerous businesses. The Group works to identify meaningful value-creating initiatives during the due diligence process, and teams with management to craft a "100-day plan" to enhance the business after the acquisition. The Group has developed a highly successful cross-portfolio company procurement program and a proprietary healthcare initiative known as Equity Healthcare. These two platforms harness spending from more than 40 portfolio companies with combined revenues of over $110 billion. We estimate that our procurement efforts and Equity Healthcare have together resulted in estimated annual savings for the firm's portfolio companies of $215 million to $235 million.

I discovered that Blackstone adds enormous value to our leadership team through the Portfolio Operations Group. Lower healthcare costs, lean operations, and improved information technology are just a few of the contributions they've made to Nielsen's bottom line.

—**DAVID CALHOUN** *CEO, NIELSEN*

5

Providing Clean and Inexpensive Energy for an Emerging Economy *Uganda*

Meeting Uganda's electricity needs is the goal of the Bujagali Project, a public private partnership being developed by Sithe Global Power, a Blackstone private equity portfolio company.

The Bujagali Project will consist of a dam and a 250 megawatt hydroelectric power station on the Victoria Nile River. In a country where affordable energy is sorely lacking, Bujagali is expected to double Uganda's generation capacity at a per kilowatt hour cost estimated to be 65% below that of existing diesel units. Furthermore, water power is a renewable resource with low carbon emissions. Construction of the project employs several hundred workers and will provide energy to power economic growth in the region.

The project attracted Sithe and Blackstone because of its benefits for the people of Uganda, its high level of international support and the opportunity for attractive returns. A World Bank affiliate has provided equity investment insurance and Bujagali has received financing from the Aga Khan Foundation for Economic Development as well as international financial institutions such as the World Bank and the IFC.

12.2

$12.2 BILLION IN UNINVESTED CAPITAL FOR POTENTIAL REAL ESTATE INVESTMENTS

2

Patient, Well-Positioned *Real Estate*

In a tough investing and operating environment, Blackstone's Real Estate group is distinguished by exceptional strength and staying power. Fee earning real estate assets amounted to $23.0 billion at the end of 2008, an increase of 23% from $18.6 billion in 2007. The average returns for this business since 1992 have consistently made it a top performer in the real estate industry.

Blackstone's real estate holdings — including the world's leading hotel portfolio and among the largest portfolios of office buildings in the U.S. — are extremely high-quality and well located. Anticipating the downturn in the market, we aggressively sold $60 billion of assets between 2005 and 2007, applying the proceeds to dramatically reduce our leverage, extend debt maturities, strengthen the balance sheets of our holdings and return net proceeds to our investors.

Patience and prudence are the keys to our investment strategy in the current marketplace. While we are confident in the future opportunity to acquire quality real estate assets at outstanding values, we believe real estate prices are not yet as attractive as they will be later in the cycle. As a result, we made almost no new real estate investments in 2008. We did, however, make several modest investments during 2008 in regions that will eventually benefit from dynamic growth, such as a minority stake in Synergy Property Development, one of India's top construction management companies, and the purchase of a shopping mall in Shanghai, China.

Today, we are well positioned for future opportunities to acquire assets at outstanding values. Blackstone has amassed uninvested capital of $12.2 billion across its various real estate funds. We believe this is the largest pool of capital for potential global real estate investments available today. Given the market conditions in the past two years, the fact that we were able to raise significant funds is a strong vote of confidence in Blackstone's real estate investment expertise on the part of institutional investors.

1. We continue to be patient.
2. With the re-pricing of real estate worldwide, we foresee significant future investment opportunities.
3. Our $60 billion in asset sales from 2005 to 2007 allowed us to reduce leverage, extend debt maturities and strengthen the balance sheets of our real estate holdings.


CHENIERE

6

Meeting Energy Needs
Cheniere

Blackstone's GSO Capital Partners unit led a $250 million senior secured convertible loan facility for Cheniere Energy, Inc. At a time of restricted credit, the financing will allow Cheniere to continue development of liquefied natural gas (LNG) terminals and related pipelines that will expand the availability of LNG in the U.S.

LNG, which has a relatively low emissions profile when converted to natural gas, is expected to play a more important role in meeting the country's energy needs. The U.S., with its extensive natural gas infrastructure, is an attractive market for the LNG produced across the globe. However, we need to develop capacity for regasification, which turns LNG into natural gas, to make LNG a viable alternative. Cheniere's Sabine Pass regasification terminal in Louisiana — the world's largest, with a capacity of 4 billion cubic feet of gas per day — can go a long way toward achieving this goal.

GSO's investment will help bring Cheniere's LNG project to reality — not only providing an added source of energy, but also creating jobs in the Gulf Coast region.

S&P 500 Total Return Index

–1.4%

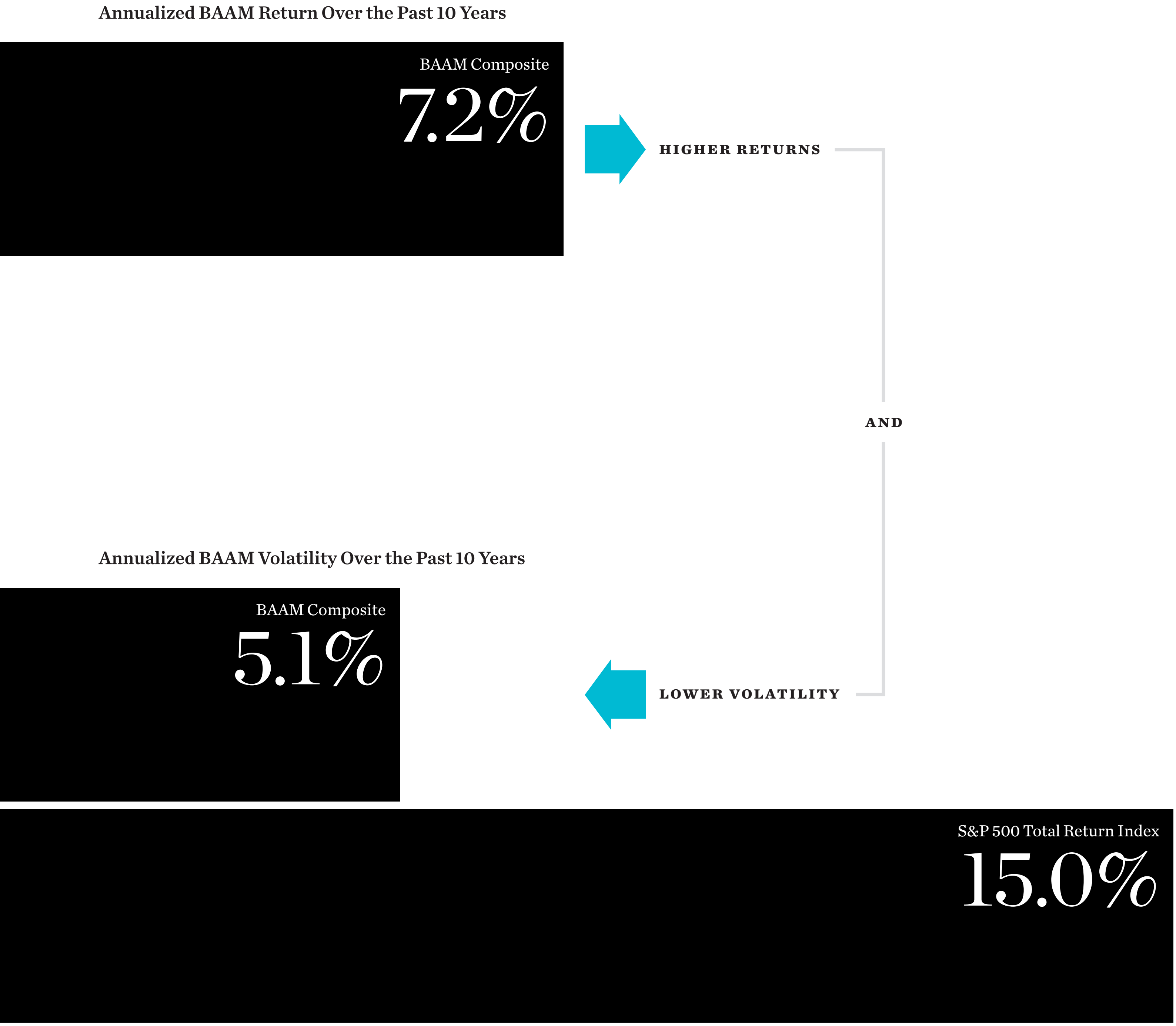
Performance and Potential *Marketable Alternative Asset Management*

Our Marketable Alternative Asset Management (MAAM) business manages funds of hedge funds, credit investments and closed-end mutual funds with the objective of generating superior risk-adjusted returns for institutional investors. MAAM had a total of $42.6 billion in fee earning assets under management at the end of 2008.

Adverse conditions in both the equity and credit markets have had a particularly severe impact on hedge funds generally. As returns have suffered and liquidity has evaporated, many investors in hedge funds have been obliged to redeem their alternative asset positions. In contrast, Blackstone's funds of hedge funds have performed better than the broad equity market indices and many of our industry peers, and redemptions are below industry average. Net external inflows for BAAM were $4.2 billion in 2008.

One reason for our stronger relative performance is Blackstone's practice of applying robust modeling techniques to each portfolio, taking extreme economic scenarios into account and allocating clients' assets accordingly. We also have a robust investment due diligence process including front office, operational, risk and legal due diligence teams. With a client base primarily consisting of large institutional investors, we are an attractive partner for leading hedge funds, compared with some smaller participants in the industry.

A major addition to our alternative asset management business was the acquisition in early 2008 of GSO Capital Partners. Combining GSO's specialized credit expertise with Blackstone's existing credit business has created one of the world's strongest credit platforms, with $20.2 billion of fee-earning assets under management. As a result, Blackstone is well positioned to take advantage of the current excellent opportunities to earn outsized returns in today's credit markets. GSO's strong investment results enabled the group to raise $5.5 billion of capital during 2008 across its hedge fund, mezzanine and leveraged loan strategies.


Annualized BAAM Return Over the Past 10 Years
BAAM Composite
7.2%
HIGHER RETURNS
AND
Annualized BAAM Volatility Over the Past 10 Years
BAAM Composite
5.1%
LOWER VOLATILITY
S&P 500 Total Return Index
15.0%

7 Making Mortgages Work
Bayview

Bayview Asset Management is an active investor in home mortgages with a successful track record of working out delinquent loans — allowing many families to remain in their homes. The company operates a highly rated mortgage servicer and takes a high-touch approach toward servicing by having a lower loan count to employee ratio than any of its main competitors. Since the end of 2007, Bayview has raised a multi-billion dollar fund to acquire whole loans and mortgage-backed securities.

As the mortgage crisis loomed, Bayview partnered with Blackstone Alternative Asset Management (BAAM) to launch a fund that would buy home mortgages and create value by modifying non-performing loans and returning them to performing status. In the fourth quarter of 2008, Blackstone's Private Equity Group also purchased an equity stake in Bayview.

Wherever possible, Bayview actively engages with financially strapped homeowners to achieve loan modifications or workouts that avoid foreclosure — an outcome welcomed by both borrowers and investors.

8 Promoting Economic Stability
Ukraine

When the Government of Ukraine required assistance in meeting complex macro-economic challenges, it turned to Blackstone's Financial Advisory Group in late 2008.

Like other emerging market economies, Ukraine has been hit hard by the global financial crisis. Blackstone was engaged by Ukraine's Cabinet of Ministers to advise the Government on a wide range of financial matters critical to the country's economic stability. As an independent, conflict-free advisor with relevant public and private sector transaction experience, knowledge of emerging markets and a growing presence in Eastern Europe, Blackstone was uniquely qualified for this mandate.

Blackstone has fulfilled a wide range of roles as part of this mandate, including coordinating work streams between international financial organizations, facilitating the orderly flow of capital and attracting new capital. All of these efforts are focused on the crucial goal of strengthening and stabilizing Ukraine's financial system during these challenging times.

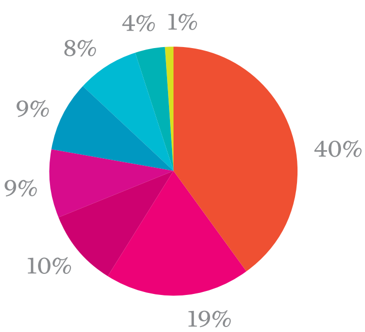
Playing a Trusted Role
Financial Advisory

Blackstone's Financial Advisory business had a very strong year and has emerged as an important player in the global financial recovery effort. With senior level intellectual capital, an independent structure and an avoidance of the conflicts and challenges affecting many competitors, we have taken on marquee assignments that are vital to the world economy. Through our Park Hill Group, we also provide fund placement services for other alternative asset managers.

We advised on more than 160 advisory assignments in 2008 and generated record fees of $411 million. Among the team's high-profile assignments, we were designated the global coordinator for AIG's restructuring. In global M&A deals completed last year, we advised on a number of complex transactions, including the Reuters/Thomson merger, the Suez/Gaz de France merger, Procter & Gamble's divestiture of Folgers Coffee and Kraft Foods' divestiture of Post Cereal. In global restructuring deals we worked to reconfigure the balance sheets of a number of financial institutions such as Northern Rock and a high percentage of the large monoline insurance companies, including MBIA, ACA and Syncora among others, and advised on the bankruptcy of energy company SemGroup LP. Our team helped auto makers General Motors and Ford repackage their heavy employee beneficiary cost obligations into union-supervised Voluntary Employee Beneficiary Association (VEBA) trusts. In all cases, our team provided custom-tailored solutions to address complex and critical needs.

Going forward, we see more growth in our advisory opportunities as companies in the financial services, automotive, retailing and other sectors continue to face pressures to realign their businesses. As worldwide economic distress drives increasing levels of reorganization and consolidation activity, and even healthy companies re-examine their business structure and strategy, our team is well positioned to gain market share and further enhance our reputation as a trusted global advisor.

Corporate Advisory and Restructuring Clients by Sector



40% Financial Industry Group
19% Consumer/Retail
10% Telecom, Media, Technology
9% Industrial
9% Automotive
8% Energy
4% Real Estate
1% Other

61

ADVISED IN 61 DISTRESSED SITUATIONS, INVOLVING MORE THAN $500 BILLION IN LIABILITIES

Blackstone's Core Beliefs

From Blackstone's inception in 1985, its founders' core beliefs have remained a constant and defining aspect of the firm.

1. In a world of giant organizations with a broad array of services, there was room for a specialized firm with the highest levels of professionalism and integrity, and senior-level attention to clients and relationships.

2. In an environment of ever larger firms, the most gifted, entrepreneurial professionals would desire a more personal setting and would join Blackstone to create exciting new businesses in their fields of expertise.

3. In contrast to the prevailing philosophy of "other people's money," the firm would always put significant amounts of its own money in the investments it made.

4. In a world rife with conflicts of interest, there was a need for a firm that would provide entirely objective advice and counsel.

5. We will consistently strive to achieve superior performance through innovation, uniqueness and excellence.

6. Above all else, our people — their creativity, imagination, dedication, teamwork and integrity — will be our key assets.

Peter G. Peterson
Chairman Emeritus and Co-Founder

Investing in the American Dream
Pete Peterson

We take this occasion to celebrate the ideals and accomplishments of Peter G. Peterson, Blackstone's Co-Founder, who retired as our Senior Chairman in 2008. For nearly 50 years, those seeking total integrity, a sharp business intellect, a dedication to public service and a willingness to speak the truth have sought out Pete Peterson.

Pete brought those qualities to Blackstone when he and Steve Schwarzman established the firm in 1985. From inception, their defining vision of the firm reflected Pete's strong core values: to be independent and conflict free—and always to put the clients' needs first. In the firm's initial marketing outreach, Pete declared that Blackstone would not back hostile deals and would have no conflicts of interest with investment banking clients. Clearly, the message resonated, appealing to prominent clients such as USX, E.F. Hutton, Firestone, Union Carbide, Bristol-Myers Squibb, Sony and many more from Pete's legendary list of contacts.

Pete dedicated himself to the work of building a world class firm. He was closely involved with the firm's fund raising efforts in private equity and real estate. He identified complementary business areas and unselfishly gave of his time, energy and expertise while granting people the freedom to succeed. The values that Pete instilled in the firm remain the hallmark of Blackstone's approach to this day.

Aside from Blackstone, Pete has played a wide variety of roles on the global business, government and philanthropic stages. He has led such corporations as Lehman Brothers and Bell & Howell. He served his country's economic interests as Secretary of Commerce, Chairman of the Federal Reserve Bank of New York, Co-Founder of The Concord Coalition, Founder and Chairman of The Peterson Institute for International Economics, and Co-Chairman of The Conference Board's Commission on Public Trust and Private Enterprise. And he made an indelible impression on U.S. international affairs as Chairman of the Council on Foreign Relations for 22 years.

Pete's values reach back much farther, however, to his immigrant parents' restaurant in Kearney, Nebraska, where he learned to work hard, respect individual effort and believe in the American dream. Today, Pete continues to devote enormous energy and financial support to keeping those values alive, through his creation of the Peter G. Peterson Foundation to address the fiscal challenges that threaten our country's future.

We are grateful for Pete's insight and inspiration, and we will strive to honor his values by always operating Blackstone with integrity, honesty and fairness.

Leadership Directory

Board of Directors

Stephen A. Schwarzman
Chairman, CEO and Co-Founder,
The Blackstone Group

Hamilton E. James
President and Chief Operating Officer,
The Blackstone Group

J. Tomilson Hill
Vice Chairman and Head of
Marketable Alternative Asset Management,
The Blackstone Group

Richard Jenrette
Retired Chairman and CEO,
The Equitable Life Assurance Society

Jay O. Light
Dean, Harvard Business School

The Right Honorable Brian Mulroney
Former Prime Minister of Canada

William G. Parrett
Retired CEO and Senior Partner,
Deloitte (Deloitte Touche Tohmatsu)

2009 Management, Executive Committee and Corporate Officers

Stephen A. Schwarzman
Chairman, CEO and Co-Founder

Hamilton E. James
President and Chief Operating Officer

J. Tomilson Hill
Vice Chairman and Head of
Marketable Alternative Asset Management

Robert L. Friedman
Chief Legal Officer

Bennett Goodman
Co-Founder, GSO Capital Partners

Jonathan D. Gray
Co-Head, Real Estate

Garrett M. Moran
Chief Operating Officer, Private Equity

Sylvia F. Moss
Head, Administration

Arthur B. Newman
Co-Head, Restructuring & Reorganization

Chad R. Pike
Co-Head, Real Estate

Michael A. Puglisi
Senior Managing Director

Joan Solotar
Head, Public Markets

John Studzinski
Head, Corporate Advisory and
Mergers and Acquisitions

Laurence A. Tosi
Chief Financial Officer

Kenneth C. Whitney
Head, Limited Partner Relations and
Fund Placement

Business Units

Private Equity
Corporate Private Equity
Cleantech Venture Partners
Infrastructure Partners

Real Estate
Real Estate Partners
Real Estate Partners International
Real Estate Special Situations

Marketable Alternative Asset Management (MAAM)
Blackstone Alternative Asset Management (BAAM)
GSO Capital Partners
- Multi-Strategy Credit Funds
- Mezzanine Funds
- Distressed Funds
- Collateralized Loan Obligations (CLO)

Closed End Mutual Funds
- India Fund
- Asia Tigers Fund

Financial Advisory
Corporate Advisory
Restructuring & Reorganization Advisory
Park Hill
- Park Hill LLC
- Park Hill Real Estate LLC

Blackstone Greater China
Blackstone India

Blackstone Financial Section

Economic Net Income, Net Fee Related Earnings from Operations and Adjusted Cash Flow from Operations

Our Economic Net Income, Net Fee Related Earnings from Operations and Adjusted Cash Flow from Operations for the years ended December 31, 2008 and 2007 was as follows:

(Dollars in Thousands)	Year Ended December 31, 2008	2007 Pro Forma Adjusted
Revenues		
Management Fees		
Base Management Fees	$ 1,041,718	$ 804,252
Advisory Fees	397,519	360,284
Transaction and Other Fees	125,512	533,111
Management Fee Offsets	(45,591)	(76,785)
Total Management and Advisory Fees	1,519,158	1,620,862
Performance Fees and Allocations	(1,247,249)	1,095,573
Investment Income (Loss) and Other	(714,002)	404,988
Total Segment Revenues	(442,093)	3,121,423
Expenses		
Compensation and Benefits	568,709	779,939
Other Operating Expenses	319,216	220,770
Total Segment Expenses	887,925	1,000,709
Economic Net Income (Loss)	$(1,330,018)	$2,120,714
Net Fee Related Earnings from Operations	$ 427,668	$ 386,697
Adjusted Cash Flow from Operations	$ 128,801	$1,516,604

Blackstone uses Economic Net Income as a key measure of value creation and as a benchmark of its performance. Additionally, Blackstone presents certain pro forma measures which allow for comparison of results before and after the initial public offering ("IPO") and related reorganization, and when presented in conjunction with comparable measures prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), are useful for investors as appropriate measures for evaluating its operating performance.

Economic Net Income

Economic Net Income, or "ENI," represents segment net income excluding the impact of income taxes and transaction-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. Blackstone's historical combined financial statements for periods prior to the IPO do not include these transaction-related charges nor do such financial statements reflect certain compensation expenses including performance payment arrangements associated with senior managing directors, departed partners and other selected employees. Those compensation expenses were accounted for as partnership distributions prior to the IPO but are included in the financial statements for periods following the IPO as a component of compensation and benefits expense. The aggregate of ENI for all reportable segments equals Total Reportable Segment ENI. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone's four segments.

Pro Forma Adjusted Economic Net Income adjusts Blackstone's ENI to (i) give pro forma effect to Blackstone's pre-IPO reorganization and IPO as if those events had occurred on January 1, 2007, (ii) eliminate the revenues and expenses of the businesses that were not contributed as part of the reorganization, (iii) reflect expenses related to employee compensation and profit sharing arrangements that were not effective prior to the reorganization and (iv) eliminate interest expense.

Blackstone uses Net Fee Related Earnings from Operations, which is a component of Adjusted Cash Flow from Operations, as a measure to highlight earnings from operations excluding the income related to performance fees and allocations and income earned from Blackstone's investments in the Blackstone Funds.

Net Fee Related Earnings from Operations

Net Fee Related Earnings from Operations equals (i) contractual revenues and interest income, (ii) less compensation expenses but excluding carried interest and incentive fee compensation, including amortization of transaction-related equity-based awards, (iii) less other operating expenses and (iv) less cash taxes calculated in a manner similar to our ENI provision for income taxes.

Adjusted Cash Flow from Operations

Adjusted Cash Flow from Operations, which is derived from our segment reported results, is a supplemental non-GAAP measure we use to assess liquidity and amounts available for distribution to owners. Adjusted Cash Flow from Operations is intended to reflect the cash flow attributable to Blackstone without the effects of the consolidation of the Blackstone Funds. The equivalent GAAP measure is Net Cash Provided by (Used in) Operating Activities. Adjusted Cash Flow from Operations represents net cash flows used in or provided by operating activities adjusted for (i) transaction-related corporate actions, (ii) cash flows relating to changes in operating assets and liabilities, (iii) Blackstone Funds-related investment activity, (iv) net realized gains on illiquid investments, (v) differences in the timing of realized gains by The Blackstone Group L.P. versus the Blackstone Funds, (vi) minority interest related to departed partners, (vii) GAAP taxes versus cash income taxes which are calculated in a manner similar to our ENI provision for income taxes, (viii) non-controlling interests in income of consolidated entities, and (ix) other adjustments.

Our Business

OUR BUSINESS

Blackstone is one of the largest independent alternative asset managers in the world. We also provide a wide range of financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into four business segments:

- ***Corporate Private Equity.*** We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications-related investments, since we established this business in 1987. In addition, we are in the process of raising our seventh private equity fund and are seeking to launch new investment funds to make infrastructure and clean technology investments. Through our corporate 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.*** Our real estate segment is diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six general real estate funds, two internationally focused real estate funds, a European focused real estate fund and a special situations real estate fund. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our real estate special situations fund targets global non-controlling debt and equity investment opportunities in the public and private markets.
- ***Marketable Alternative Asset Management.*** Established in 1990, our marketable alternative asset management segment is comprised of our management of funds of hedge funds, credit-oriented funds, CLO vehicles and publicly-traded closed-end mutual funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.
- ***Financial Advisory.*** Our financial advisory segment serves a diverse and global group of clients with corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds.

We generate our revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory 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. The composition of our revenues will vary based on market conditions and the cyclicality of the different businesses in which we operate. Net investment gains and resultant investment income generated by the Blackstone Funds, principally corporate private equity and real estate funds, are driven by value created by our strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy as well as other market conditions.

BUSINESS ENVIRONMENT

World markets and economies deteriorated in the fourth quarter of 2008, bringing the full year market and economic performance to some of the worst experienced since the Great Depression. In the United States, a GDP decline in the fourth quarter of 3.8% represented the greatest decline in more than 25 years. Developed nation economies generally are experiencing sharp contraction, while many emerging nations are experiencing slowing growth.

A combination of asset pricing declines and investor withdrawals reduced the value of equity and fixed income mutual fund and hedge fund holdings globally. In addition to concerns over weak economic trends, a combination of de-levering by institutional investors and a need for liquidity further pressured already stressed market pricing. Equity markets across North America, Europe and Asia declined in a range of 40–60% during 2008, with a broad-based sell-off across not only all regions but also all sectors. Commodity prices, which increased to record highs in mid-2008, dropped precipitously in the second half as demand declines caused excess supply. For example, oil prices increased to $145 per barrel in July and ended the year at $45 per barrel. Credit indices experienced similar trends, declining 25–30% to levels not experienced since the indices were initiated. Leveraged loan prices dropped from an average of 94.4% at the end of 2007 to 62.3% at year-end 2008, reaching new lows. High yield credit spreads widened by 1,100 basis points during the year. The U.S. dollar rose against each of the Euro and Pound Sterling by 4% and 36%, respectively. Demand for the 10-year U.S. treasuries drove the yield down to 2.1% at year end, a historic low. Interest rates globally have traded around historic lows.

Economic weakness also impacted real estate fundamentals and values globally. Hotels experienced a global slowdown in occupancy, culminating in a decline in the fourth quarter of 2008. Office fundamentals tend to lag those of other real estate categories and the broader economy due to the long-term nature of lease arrangements. Vacancy trends worsened in several markets in 2008. Securitization markets were very limited in 2008, heavily constraining availability of debt for new transactions.

Government intervention in the U.S., Europe and Asia continued in the fourth quarter and to date in 2009. Several financial and other institutions required government support in the form of guarantees or capital injections. Additionally, banks which have received Troubled Assets Relief Program ("TARP") funds from the U.S. government are being encouraged to lend. Further, a stimulus package to be implemented in the U.S. in 2009 is intended to reverse the weak economic trends, including unemployment rate and a decline in consumer spending. The effectiveness of the above measures is still unknown.

The external shocks to the financial services industry have, and likely will continue, to reshape the competitive landscape. Some of the largest financial institutions have been acquired, required government bailouts or are shedding businesses. The largest brokerage firms have become bank holding companies.

Lenders continue to severely restrict commitments to new debt, limiting industry-wide leveraged acquisition activity levels in both corporate and real estate markets. General acquisition activity has continued to decline, which has had a significant impact on several of our investment businesses.

The duration of current economic and market conditions is unknown. Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the United States, Western Europe, Asia and to some extent elsewhere in the world.

SIGNIFICANT TRANSACTIONS

Reorganization

The Blackstone Group L.P. was formed as a Delaware limited partnership on March 12, 2007. The Blackstone Group L.P. is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly-owned by Blackstone's senior managing directors and controlled by Stephen A. Schwarzman.

Blackstone's business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its predecessor owners. In order to facilitate the initial public offering, as described in further detail below, the predecessor owners completed a reorganization (the "Reorganization") as of the close of business on June 18, 2007 whereby, with certain limited exceptions, each of the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name, were contributed to five newly-formed holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.) or sold to wholly-owned subsidiaries of The Blackstone Group L.P. (which in turn contributed them to the five Blackstone Holdings described above). The Blackstone Group L.P., through wholly-owned subsidiaries, is the sole general partner of each of the Blackstone Holdings partnerships.

On January 1, 2009, in order to simplify Blackstone's structure and ease the related administrative burden and costs, Blackstone effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to the five holding partnerships prior to the January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization.

The Reorganization was accounted for as an exchange of entities under common control for the interests in the Contributed Businesses which were contributed by the founders and the other senior managing directors (collectively, the "Control Group") and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group pursuant to Statement of Financial Accounting Standard No. 141, *Business Combinations*.

Blackstone also 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, exchange their Blackstone Holdings Partnership Units for our 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 five Blackstone Holdings partnerships to effect an exchange for a common unit in Blackstone.

On June 27, 2007, The Blackstone Group L.P. completed the IPO of its common units representing limited partner interests. Upon the completion of the IPO, public investors owned approximately 14.1% of Blackstone's equity. Concurrently with the IPO, The Blackstone Group L.P. completed the sale of non-voting common units, representing approximately 9.3% of Blackstone's equity, to Beijing Wonderful Investments, an investment vehicle subsequently transferred to China Investment Corporation. On October 28, 2008, the agreement with Beijing Wonderful Investments was amended whereby it, and certain of its affiliates, are restricted in the future from engaging in the purchase of Blackstone common units that would result in its aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis exceeding 12.5%, an increase from 10% at the date of the IPO. In addition, Blackstone common units that Beijing Wonderful Investments or its affiliates own in excess of 10% aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis are not subject to any restrictions on transfer but are non-voting while held by Beijing Wonderful Investments or its affiliates.

The Blackstone Group L.P. contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (1) purchase interests in the Contributed Businesses from the predecessor owners (and contribute these interests to Blackstone Holdings in exchange for a number of newly-issued Blackstone Holdings Partnership Units) and (2) purchase a number of additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

The net proceeds retained by Blackstone from the IPO, totaling approximately $2.93 billion, were used to repay $1.21 billion of indebtedness outstanding under Blackstone's revolving credit agreement, with the balance being invested and/or committed as general partner investments in Blackstone sponsored funds, including its corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and proprietary hedge funds, and invested in temporary interest bearing investments.

Consolidation and Deconsolidation of Blackstone Funds

In accordance with GAAP, a number of the Blackstone funds were historically consolidated into Blackstone's combined financial statements.

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone fund (with the exception of Blackstone's then existing proprietary hedge funds and five of the funds of hedge funds) took the necessary steps to grant rights to the unaffiliated investors in each respective fund to provide that a simple majority of the fund's unaffiliated investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. The granting of these rights resulted in the deconsolidation of such investment funds from Blackstone's consolidated financial statements and the accounting of Blackstone's interest in these funds under the equity method. With the exception of certain funds of hedge funds, these rights became effective on June 27, 2007 for all Blackstone funds where these rights were granted. The effective date of these rights for the applicable funds of hedge funds was July 1, 2007. The consolidated results of these funds have been reflected in Blackstone's consolidated and combined financial statements up to the effective date of these rights.

Acquisition of GSO Capital Partners LP

In March 2008, Blackstone completed the acquisition of GSO Capital Partners LP and certain of its affiliates. GSO is an alternative asset manager specializing in the credit markets. GSO manages various credit-oriented funds and various CLO vehicles. GSO's results from the date of acquisition have been included in the Marketable Alternative Asset Management segment. The purchase consideration of GSO was $635 million, comprised of $355 million in cash and $280 million in Blackstone Holdings Partnership Units, plus up to an additional targeted $310 million to be paid over the next five years contingent upon the realization of specified earnings targets over that period. Blackstone also incurred $6.9 million of acquisition costs. Additionally, performance and other compensatory payments subject to performance and vesting may be paid to the GSO personnel.

Key Financial Measures and Indicators

Our key financial measures and indicators, in addition to Economic Net Income, Net Fee Related Earnings from Operations and Adjusted Cash Flow from Operations, are discussed below.

Revenues

Revenues consist of primarily management and advisory fees, performance fees and allocations and investment income and other.

Management and Advisory Fees. Management and advisory fees consist of (1) fund management fees and (2) advisory fees.

(1) *Fund Management Fees.* Fund management fees are comprised of:

(a) *Base Management Fees.* Base management fees are fees charged directly to the fund or fund investors.

(b) *Transaction and Other Fees.* Transaction and other fees (including monitoring fees) are comprised of fees charged directly to funds and fund portfolio companies. Our investment advisory agreements generally require that the investment advisor share a portion of certain fees with the limited partners of the fund. Transaction and other fees are net of amounts, if any, shared with limited partners.

(c) *Management Fee Offsets.* Our investment advisory agreements generally require that the investment advisor share a portion of certain expenses with the limited partners of the fund. These shared items ("management fee reductions") reduce the management fees received from the limited partners. Management fee offsets are comprised principally of broken deal and placement fee expenses.

(2) *Advisory Fees.* Advisory fees consist of advisory retainer and transaction-based fee arrangements related to mergers, acquisitions, restructurings, divestitures and fund placement services for alternative investment funds.

Performance Fees and Allocations. Performance fees and allocations represent the preferential allocations of profits ("carried interest") which are a component of our general partner interests in the carry funds. We are entitled to carried interest from an investment carry fund in the event investors in the fund achieve cumulative investment returns in excess of a specified rate. In certain performance fee arrangements related to funds of hedge funds and some credit-oriented funds in our Marketable Alternative Asset Management segment, we are entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In all cases, each fund is considered separately in that regard and for a given fund, performance fees and allocations can never be negative over the life of the fund.

Investment Income. Blackstone invests in corporate private equity funds, real estate funds, funds of hedge funds and credit-oriented funds that are not consolidated. Blackstone accounts for these investments under the equity method of accounting. Blackstone's share of operating income generated by these investments is recorded as a component of Investment Income and Other.

Expenses

Compensation and Benefits Expense. Prior to the IPO in June 2007, our compensation and benefits expense reflected compensation (primarily salary and bonus) paid or accrued solely to our non-senior managing director employees with all payments for services rendered by our senior managing directors and selected other individuals engaged in our businesses accounted for as partnership distributions rather than as employee compensation and benefits expense. Subsequent to our IPO, compensation and benefits expense reflects (1) employee compensation and benefits expense paid and payable to our employees, including our senior managing directors, (2) equity-based compensation associated with grants of equity-based awards to senior managing directors, other employees and selected other individuals engaged in our businesses and (3) performance payment arrangements for Blackstone personnel and profit sharing interests in carried interest.

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

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

Non-Controlling Interests in Income of Consolidated Entities

Prior to the IPO, non-controlling interests in income of consolidated entities has primarily consisted of interests of unaffiliated third-party investors and AIG's investments in Blackstone Funds pursuant to AIG's mandated limited partner capital commitments, on which we receive carried interest allocations and which we refer to collectively as "Limited Partners" or "LPs" as well as discretionary investments by Blackstone personnel and employees. Non-controlling interests related to carry funds are subject to on-going realizations and distributions of proceeds therefrom during the life of a fund with a final distribution at the end of each respective fund's term, which could occur under certain circumstances in advance of or subsequent to that fund's scheduled termination date. Non-controlling interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years) when capital may not be withdrawn or may only be withdrawn subject to a redemption fee. When redeemed amounts become legally payable to investors in these funds on a current basis, they are reclassified as a liability. On the date of the Reorganization, such non-controlling interests were initially recorded at their historical carry-over basis as those interests remained outstanding and were not being exchanged for Blackstone Holdings Partnership Units.

Following the IPO, we are no longer consolidating most of our investment funds, as we granted to the unaffiliated investors the right, without cause, to remove the general partner of each applicable fund or to accelerate the liquidation of each applicable fund in accordance with certain procedures and accordingly non-controlling interests in income of consolidated entities related to the Limited Partner interests in the deconsolidated funds were subsequently no longer reflected in our financial results. However, we record significant non-controlling interests in income of consolidated entities relating to the ownership interests of the limited partners of the Blackstone Holdings Partnerships and the limited partner interests in our investment funds that remain consolidated. The Blackstone Group L.P. is, through wholly-owned subsidiaries, the sole general partner of each of the Blackstone Holdings partnerships. The Blackstone Group L.P. consolidates the financial results of Blackstone Holdings and its consolidated subsidiaries, and the ownership interest of the limited partners of Blackstone Holdings is reflected as a non-controlling interest in The Blackstone Group L.P.'s consolidated and combined financial statements.

Income Taxes

Prior to the IPO, we operated as a partnership or limited liability company for U.S. federal income tax purposes and primarily as a corporate entity in non-U.S. jurisdictions. As a result, our income was not subject to U.S. federal and state income taxes. Generally, the tax liability related to income earned by these entities represents obligations of the individual partners and members. Income taxes shown on The Blackstone Group's historical combined income statements are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

Following the IPO, the Blackstone Holdings partnerships and certain of their subsidiaries continue to operate in the United States 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 will continue to be subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of The Blackstone Group L.P. and the Blackstone Holdings partnerships are subject to corporate federal, state and local income taxes that are reflected in our consolidated and combined financial statements.

There remains some uncertainty regarding Blackstone's future taxation levels. In June 2007, a bill was introduced in the U.S. Senate that would preclude Blackstone from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. In addition, the U.S. Congress has recently considered other bills relating to the taxation of investment partnerships. In June 2008, the U.S. House of Representatives passed a bill that would generally (1) treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would require Blackstone to hold interests in entities earning such income through taxable subsidiary corporations, and (2) tax carried interest as ordinary income for U.S. federal income tax purposes, rather than in accordance with the character of income derived by the underlying fund, which is in many cases capital gain. The Obama Administration's budget proposals released on February 26, 2009 include a proposal to tax carried interest as ordinary income. If any such legislation or similar legislation were to be enacted and it applied to us, it would materially increase the amount of taxes payable by Blackstone and/or its unitholders.

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 flow. 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 equal the sum of:

(1) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and as to which we receive fees or a carried interest allocation);
(2) the net asset value of our hedge funds and our closed-end mutual funds; and
(3) the amount of capital raised for our CLOs.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election and therefore do not have any advance notice obligations. Interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors upon advance written notice with the majority of our funds requiring from 60 days up to 95 days depending on the fund and the liquidity profile of the underlying assets.

Fee-Earning Assets Under Management. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management fees. Our Fee-Earning Assets Under Management equal the sum of:

(1) for our carry funds where the investment period has not expired, the amount of capital commitments;
(2) for our carry funds where the investment period has expired, the remaining amount of invested capital;
(3) the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and as to which we receive fees;
(4) the net asset value of our hedge funds and our closed-end mutual funds; and
(5) the gross amount of assets of our CLOs.

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

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

Limited Partner Capital Invested. Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds as to which we receive fees or a carried interest allocation. Over the 21-year period ending December 31, 2008, we earned average gross multiples of invested capital for realized and partially realized investments of 2.4x in both of our corporate private equity and real estate funds.

We manage our business using traditional financial measures and our key operating metrics since we believe that these metrics measure the productivity of our investment activities.

Discussed below are the key highlights of our results of operations for each of our reportable segments. The information presented is Economic Net Income, Pro Forma Adjusted Economic Net Income and Net Fee Related Earnings from Operations, which is the information utilized by our senior management to make operating decisions, assess performance and allocate resources. References to "our" sectors or investments refer to portfolio companies and investments included in the underlying funds that we manage.

Corporate Private Equity

Corporate Private Equity had negative fourth quarter 2008 revenues of $(193.6) million, as compared with negative revenues of $(68.3) million for the third quarter 2008 and $(15.4) million for the fourth quarter 2007, driven by a net depreciation in the fair value of the portfolio investments. The primary catalyst for the depreciation was lower operating projections for some portfolio companies, reduced share prices of publicly held investments consistent with overall declines in global equity markets and the depreciation of foreign currencies against the dollar.

Net Fee Related Earnings from Operations were $31.6 million for the fourth quarter 2008, a decrease of $12.6 million as compared to the fourth quarter 2007. The primary driver of the reduction was a decrease in transaction fees.

Base Management Fees were essentially flat as compared to both the third quarter 2008 and fourth quarter 2007. Transaction and Other Fees decreased slightly compared to the third quarter 2008 and decreased $39.3 million from the fourth quarter 2007, which included a substantial fee associated with the acquisition of Hilton Hotels.

Compensation and Benefits expense declined to $22.5 million from $34.2 million in the third quarter 2008 and increased from $(1.8) million in the fourth quarter 2007. Other Operating Expenses were $23.1 million, down from $24.0 million in the third quarter 2008 and $23.6 million in the fourth quarter 2007.

Weighted-Average Fee-Earning Assets Under Management rose to $25.48 billion from $24.90 billion in the fourth quarter 2007.

Limited Partner Capital Deployed totaled $1.13 billion for the quarter, a decrease from $2.33 billion deployed in the fourth quarter 2007.

Corporate Private Equity had negative full year revenues of $(286.2) million, as compared with positive revenues of $821.3 million for the prior year. The principal driver of the change year-over-year was a net depreciation in the fair value of the portfolio investments in the corporate private equity funds. This depreciation in fair value is reflected in lower Performance Fees and Allocations and Investment Income (Loss) and Other.

Real Estate

Real Estate had negative revenues of $(477.8) million for the fourth quarter 2008, as compared with negative revenues of $(273.7) million for the third quarter 2008 and $113.5 million for the fourth quarter 2007. The principal driver of the decline was a net depreciation in the fair value of certain investments in the office and hospitality portfolios, which reflects both increases in capitalization rates and revised operating projections. This decrease in fair value is reflected in Performance Fees and Allocations and Investment Income (Loss) and Other.

Net Fee Related Earnings from Operations were $43.8 million for the fourth quarter 2008, a decrease of $4.6 million as compared to the fourth quarter 2007. The principle driver of the reduction was a decrease in transaction fees, partially offset by a decrease in compensation expenses.

Base Management Fees were $80.8 million, a slight increase from $80.4 million for the third quarter 2008 and a 25% increase over the fourth quarter 2007. This change reflects higher Fee-Earning Assets Under Management.

Transaction and Other Fees declined $94.3 million from the fourth quarter 2007, which included a substantial fee associated with the acquisition of Hilton Hotels. Transaction and Other Fees in the fourth quarter 2008 increased $3.3 million from the third quarter 2008.

Compensation and Benefits was a negative $(12.1) million, reflecting the reversal of prior period carried interest allocations to certain personnel, down from $21.1 million in the third quarter 2008 and $65.4 million for the fourth quarter 2007. Other Operating Expenses were $12.2 million, down $2.6 million and $15.3 million from both the third quarter 2008 and fourth quarter 2007, respectively.

Weighted-Average Fee-Earning Assets Under Management increased 24% or $4.41 billion from the fourth quarter 2007 to $22.64 billion.

Limited Partner Capital Deployed totaled $258.6 million for the fourth quarter 2008, a decrease from the $4.04 billion deployed in the fourth quarter 2007.

Real Estate had negative revenues of $(718.0) million, as compared with positive revenues of $1.30 billion for the full year 2007. The principal driver of the decline year-over-year was a net depreciation in the fair value of the portfolio holdings in the real estate funds. This depreciation in fair value is reflected in Performance Fees and Allocations and Investment Income (Loss) and Other.

Marketable Alternative Asset Management (MAAM)

MAAM had negative revenues of $(55.7) million, compared with negative revenues of $(48.0) million for the third quarter 2008 and $178.2 million for the fourth quarter 2007.

Base Management Fees were $114.3 million, up 23%, as compared to the fourth quarter 2007, and down 13% as compared to the third quarter 2008.

Net Fee Related Earnings from Operations were $21.7 million for the fourth quarter 2008, a decrease of $1.4 million as compared to the fourth quarter 2007. The main driver of the change was an increase in compensation expenses, principally offset by an increase in management fees.

Base Management Fees for the full year 2008 were $476.8 million, up 51%, as compared to 2007.

Net Fee Related Earnings from Operations for the full year 2008 were $130.9 million, up 162%, as compared to 2007.

Compensation and Benefits was $40.3 million, down from $60.3 million in the third quarter 2008 and from $45.7 million for the fourth quarter 2007.

Weighted-Average Fee-Earning Assets Under Management for the fourth quarter 2008 totaled $47.47 billion compared with $38.49 billion for the prior year, a 23% increase.

Limited Partner Capital Deployed totaled $333.8 million for the fourth quarter 2008, up from $82.2 million in the fourth quarter 2007, primarily from activity in certain of Blackstone's newly launched credit oriented funds.

MAAM had revenues of $151.5 million for the full year 2008, after $329.5 million of investment losses, compared with revenues of $628.0 million for the full year 2007.

Financial Advisory

Revenues were $105.8 million for the fourth quarter 2008, up 17% compared to the fourth quarter 2007 and down 34% from the third quarter 2008. An increase in revenues in Blackstone's corporate and mergers and acquisitions advisory service business was the primary driver for the increase from the fourth quarter 2007.

Net Fee Related Earnings from Operations were $20.8 million for the fourth quarter 2008, a decrease of $3.4 million as compared to the fourth quarter 2007. The primary catalyst for the reduction was higher compensation primarily related to business expansion and other operating expenses, partially offset by higher advisory fees.

Compensation and Benefits was $56.9 million, down from $82.3 million in the third quarter 2008 and up from $44.4 million for the fourth quarter 2007.

Revenues were $410.6 million for the full year 2008, representing an increase of 12% compared to $367.7 million in the prior year. The increase was driven by revenues in Blackstone's corporate and mergers and acquisitions advisory service and restructuring and reorganization advisory services businesses. An increase in client mandates accounted for the increase in corporate and mergers and acquisitions advisory revenues, while the continued credit market turmoil and low levels of available liquidity led to increased bankruptcies, debt defaults and debt restructurings and drove the increase in revenues in the restructuring and reorganization advisory services business.

SEGMENT ECONOMIC NET INCOME, PRO FORMA ADJUSTED ECONOMIC NET INCOME AND NET FEE RELATED EARNINGS FROM OPERATIONS

The tables below detail Blackstone's Economic Net Income and Net Fee Related Earnings from Operations for the year ended December 31, 2008 and Pro Forma Adjusted Economic Net Income and Pro Forma Adjusted Net Fee Related Earnings from Operations for the year ended December 31, 2007. Economic Net Income for the year ended December 31, 2007 is presented separately following the tables below.

	Corporate Private Equity		Real Estate	
	Year Ended December 31,		Year Ended December 31,	
(Dollars in Thousands)	2008	2007	2008	2007
		Pro Forma Adjusted		Pro Forma Adjusted
Revenues				
Management Fees				
Base Management Fees	$ 268,961	$254,843	$ 295,921	$ 233,072
Advisory Fees	–	–	–	–
Transaction and Other Fees*	80,950	178,071	36,046	348,410
Management Fee Offsets**	(34,016)	(65,035)	(4,969)	(11,717)
Total Management Fees	315,895	367,879	326,998	569,765
Performance Fees and Allocations	(430,485)	338,385(a)	(819,023)	600,209(a)
Investment Income (Loss) and Other	(171,580)	115,018(a)	(225,984)	134,514(a)
Total Segment Revenues	(286,170)	821,282	(718,009)	1,304,488
Expenses				
Compensation and Benefits	16,206	132,686(b)	76,793	239,750(b)
Other Operating Expenses	90,130	69,972(c)	55,782	50,490(c)
Total Segment Expenses	106,336	202,658	132,575	290,240
Economic Net Income (Loss)	$(392,506)	$618,624	$ (850,584)	$1,014,248
Net Fee Related Earnings from Operations	$ 81,928	$ 82,767	$ 119,621	$ 182,584

* Transaction and Other Fees are net of amounts, if any, shared with limited partners.

** Primarily broken deal expenses.

(a) Pro Forma adjustments reflect the elimination of the revenues of the businesses that were not contributed as part of the Reorganization.

ECONOMIC NET INCOME

The table below details Blackstone's Economic Net Income for each reportable segment for the year ended December 31, 2007.

	Year Ended December 31, 2007				
(Dollars in Thousands)	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Recap, Total Reportable Segments
Revenues					
Management Fees					
Base Management Fees	$254,843	$ 233,072	$316,337	$ –	$ 804,252
Advisory Fees	–	–	–	360,284	360,284
Transaction and Other Fees	178,071	348,410	6,630	–	533,111
Management Fee Offsets	(65,035)	(11,717)	(33)	–	(76,785)
Total Management Fees	367,879	569,765	322,934	360,284	1,620,862
Performance Fees and Allocations	379,917	623,951	156,980	–	1,160,848
Investment Income and Other	117,533	135,827	148,082	7,374	408,816
Total Segment Revenues	865,329	1,329,543	627,996	367,658	3,190,526
Expenses					
Compensation and Benefits	96,402	145,146	150,330	132,633	524,511
Other Operating Expenses	78,473	54,829	74,728	39,037	247,067
Total Segment Expenses	174,875	199,975	225,058	171,670	771,578
Economic Net Income	$690,454	$ 1,129,568	$402,938	$195,988	$2,418,948

Marketable Alternative Asset Management		Financial Advisory		Recap, Total Reportable Segments	
Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
2008	2007	2008	2007	2008	2007
	Pro Forma Adjusted		Pro Forma Adjusted		Pro Forma Adjusted
$ 476,836	$316,337	$ –	$ –	$ 1,041,718	$ 804,252
–	–	397,519	360,284	397,519	360,284
8,516	6,630	–	–	125,512	533,111
(6,606)	(33)	–	–	(45,591)	(76,785)
478,746	322,934	397,519	360,284	1,519,158	1,620,862
2,259	156,979(a)	–	–	(1,247,249)	1,095,573(a)
(329,485)	148,082(a)	13,047	7,374	(714,002)	404,988(a)
151,520	627,995	410,566	367,658	(442,093)	3,121,423
240,955	217,340(b)	234,755	190,163(b)	568,709	779,939(b)
106,027	62,393(c)	67,277	37,915(c)	319,216	220,770(c)
346,982	279,733	302,032	228,078	887,925	1,000,709
$ (195,462)	$348,262	$108,534	$139,580	$(1,330,018)	$2,120,714
$ 130,941	$ 49,906	$ 95,178	$ 71,440	$ 427,668	$ 386,697

(b) Pro Forma adjustments reflect the addition of expenses related to employee compensation and profit arrangements that were not effective prior to the Reorganization.

(c) Pro Forma adjustments reflect the elimination of interest expense based on the assumption that the revolving credit facility was repaid in full from the proceeds of the offering as of January 1, 2007.

RECONCILIATION OF PRO FORMA ADJUSTED CASH FLOW FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

The following table provides a reconciliation of Blackstone's Adjusted Cash Flow from Operations to Blackstone's Net Cash Provided by (Used in) Operating Activities. Adjusted Cash Flow from Operations is a supplemental measure of liquidity to assess liquidity and amounts available for distributions to Blackstone unitholders, including Blackstone personnel.

	Year Ended December 31,	
(Dollars in Thousands)	2008	2007
Net Cash Provided by (Used in) Operating Activities	$ 1,890,435	$ (850,296)
Changes in Operating Assets and Liabilities	(957,110)	188,582
Blackstone Funds Related Investment Activities	(469,693)	1,699,433
Net Realized Gains (Losses) on Investments	(164,726)	3,800,137
Non-Controlling Interests in Income of Consolidated Entities	3,723,723	(1,521,303)
Realized Gains (Losses) – Blackstone Funds	(197,426)	87,373
		Pro Forma
Cash Flow from Operations – Adjustments[a]		
Elimination of Non-Contributed Entities[b]	–	(46,523)
Increase in Compensation Expense[c]	–	(255,426)
Interests Held by Blackstone Holdings Limited Partners[d]	(3,611,955)	(1,080,015)
Eliminate Interest Expense[e]	–	26,302
Realized Gains (Losses) – Blackstone Funds	–	(275,333)
Incremental Cash Tax Effect[f]	(84,447)	(256,327)
Adjusted Cash Flow from Operations	$ 128,801	$ 1,516,604

The following table provides the details of the components of Adjusted Cash Flow from Operations. Adjusted Cash Flow from Operations is the principal factor in determining the amount of distributions to unitholders.

	Year Ended December 31,	
(Dollars in Thousands)	2008	2007
		Pro Forma
Fee Related Earnings		
Total Management and Advisory Fees[g]	$1,561,768	$1,638,947
Total Expenses[h]	1,134,100	1,252,250
Net Fee Related Earnings from Operations	427,668	386,697
Performance Fees and Allocations Net of Related Compensation[i]	33,210	829,568
Blackstone Investment Income[j]		
Liquid	(327,453)	138,203
Illiquid	(4,624)	162,136
	(332,077)	300,339
Adjusted Cash Flow from Operations	$ 128,801	$1,516,604

(a) Adjusted Cash Flow from Operations is based upon historical results of operations and gives effect to the pre-initial public offering reorganization and the initial public offering as if they were completed as of January 1, 2007. These pro forma adjustments are consistent with Rule 11-01 of Regulation S–X at the time of the IPO.

(b) Represent adjustments to eliminate from Adjusted Cash Flow from Operations the cash flows of the businesses that were not contributed as part of the reorganization.

(c) Represent adjustments to reflect in Adjusted Cash Flow from Operations the cash portion of expenses related to employee compensation that were not effective prior to the reorganization as well as vested carried interest for departed partners.

(d) Represents an adjustment to add back net income (loss) allocable to interest holders of Blackstone Holdings Limited Partners after the Reorganization recorded as Non-Controlling Interests.

(e) Represent adjustments to eliminate interest expense in Adjusted Cash Flow from Operations on the assumption that the revolving credit facility was repaid in full from the proceeds of the offering.

(f) Represent the provisions for and/or adjustments to income taxes that were calculated using the same methodology applied in calculating such amounts for the period after the reorganization.

(g) Comprised of total reportable segment Management and Advisory Fees plus Interest Income.

(h) Comprised of total reportable segment compensation expense (excluding compensation expense related to Performance Fees and Allocations pursuant to Blackstone's profit sharing plans related to carried interest and incentive fees which are included in (i) below), other operating expenses and Blackstone's estimate of cash taxes currently due.

(i) Represents realized Performance Fees and Allocations net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.

(j) Comprised of Blackstone's investment income (realized and unrealized) on its liquid investments from its Marketable Alternative Asset Management segment as well as its net realized investment income on its illiquid investments, principally from its Corporate Private Equity and Real Estate Segments and permanent impairment charges on certain illiquid investments.

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 and combined statements of financial condition of The Blackstone Group, L.P. and subsidiaries ("Blackstone") as of December 31, 2008 and 2007, and the related consolidated and combined statements of operations, changes in partners' capital, and cash flows for each of the three years in the period ended December 31, 2008. We also have audited Blackstone's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated and combined 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

New York, New York
February 27, 2009

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except Unit Data)	December 31, 2008	December 31, 2007
Assets		
Cash and Cash Equivalents	$ 503,737	$ 868,629
Cash Held by Blackstone Funds and Other	907,324	163,696
Investments	2,830,942	7,145,156
Accounts Receivable	312,067	213,086
Due from Brokers	48,506	812,250
Investment Subscriptions Paid in Advance	1,916	36,698
Due from Affiliates	861,434	855,854
Intangible Assets, Net	1,077,526	604,681
Goodwill	1,703,602	1,597,474
Other Assets	165,434	99,366
Deferred Tax Assets	845,423	777,310
Total Assets	$9,257,911	$13,174,200
Liabilities and Partners' Capital		
Loans Payable	$ 387,000	$ 130,389
Amounts Due to Non-Controlling Interest Holders	1,103,423	269,901
Securities Sold, Not Yet Purchased	894	1,196,858
Due to Affiliates	1,285,577	831,609
Accrued Compensation and Benefits	413,459	188,997
Accounts Payable, Accrued Expenses and Other Liabilities	173,436	250,445
Total Liabilities	3,363,789	2,868,199
Commitments and Contingencies		
Non-Controlling Interests in Consolidated Entities	2,384,965	6,079,156
Partners' Capital		
Partners' Capital (common units: 273,891,358 issued and 272,998,484 outstanding as of December 31, 2008; 260,471,862 issued and 259,826,700 outstanding as of December 31, 2007)	3,509,448	4,226,500
Accumulated Other Comprehensive Income (Loss)	(291)	345
Total Partners' Capital	3,509,157	4,226,845
Total Liabilities and Partners' Capital	$9,257,911	$13,174,200

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Unit and Per Unit Data)	Year Ended December 31, 2008	2007	2006
Revenues			
Management and Advisory Fees	$ 1,476,357	$1,566,047	$1,077,139
Performance Fees and Allocations	(1,247,320)	1,126,640	1,267,764
Investment Income (Loss) and Other	(578,398)	357,461	272,526
Total Revenues	(349,361)	3,050,148	2,617,429
Expenses			
Compensation and Benefits	3,859,787	2,256,647	250,067
Interest	23,008	32,080	36,932
General, Administrative and Other	440,776	324,200	122,395
Fund Expenses	63,031	151,917	143,695
Total Expenses	4,386,602	2,764,844	553,089
Other Income (Loss)			
Net Gains (Losses) from Fund Investment Activities	(872,336)	5,423,132	6,090,145
Income (Loss) Before Non-Controlling Interests in Income (Loss) of Consolidated Entities and Provision (Benefit) for Taxes	(5,608,299)	5,708,436	8,154,485
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(4,404,278)	4,059,221	5,856,345
Income (Loss) Before Provision (Benefit) for Taxes	(1,204,021)	1,649,215	2,298,140
Provision (Benefit) for Taxes	(40,989)	25,978	31,934
Net Income (Loss)	$(1,163,032)	$1,623,237	$2,266,206
		June 19, 2007 through December 31, 2007	
Net Loss		$ (335,514)	
Net Loss Per Common Unit – Basic and Diluted			
Common Units Entitled to Priority Distributions	$ (4.36)	$ (1.29)	
Common Units Not Entitled to Priority Distributions	$ (3.09)		
Weighted-Average Common Units Outstanding – Basic and Diluted			
Common Units Entitled to Priority Distributions	264,046,557	259,979,606	
Common Units Not Entitled to Priority Distributions	1,501,373	N/A	
Revenues Earned from Affiliates			
Management and Advisory Fees	$ 188,276	$ 594,967	$ 405,345

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(Dollars in Thousands Except Unit Data)	Common Units	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Other Comprehensive Income (Loss)
Balance at December 31, 2005	–	$ 1,818,749	$ 6,196	$ 1,824,945	$ 1,336,441
Net Income	–	2,266,206	–	2,266,206	$ 2,266,206
Currency Translation Adjustment	–	–	4,098	4,098	4,098
Net Unrealized Loss on Cash Flow Hedges	–	–	(20)	(20)	(20)
Capital Contributions	–	212,594	–	212,594	–
Capital Distributions	–	(1,584,944)	–	(1,584,944)	–
Balance at December 31, 2006	–	2,712,605	10,274	2,722,879	$ 2,270,284
Net Income	–	1,958,751	–	1,958,751	$ 1,958,751
Currency Translation Adjustment	–	–	(191)	(191)	(191)
Net Unrealized Loss on Cash Flow Hedges	–	–	(6,930)	(6,930)	(6,930)
Capital Contributions	–	233,659	–	233,659	–
Capital Distributions	–	(2,492,352)	–	(2,492,352)	–
Elimination of Non-Contributed Entities	–	(161,103)	(2,803)	(163,906)	–
Transfer of Non-Controlling Interests in Consolidated Entities	–	(2,216,284)	–	(2,216,284)	–
Balance at June 18, 2007	–	35,276	350	35,626	1,951,630
Balance at June 19, 2007	–	35,276	350	35,626	1,951,630
Issuance of Units in Initial Public Offering, net of issuance costs	153,333,334	4,501,240	–	4,501,240	–
Issuance of Units to Beijing Wonderful Investments	101,334,234	3,000,000	–	3,000,000	–
Purchase of Interests from Predecessor Owners	–	(4,570,756)	–	(4,570,756)	–
Deferred Tax Effects Resulting from Acquisition of Ownership Interests	–	111,876	–	111,876	–
Transfer of Non-Controlling Interests in Consolidated Entities	–	1,174,367	–	1,174,367	–
Net Loss	–	(335,514)	–	(335,514)	(335,514)
Distribution to Unitholders	–	(78,794)	–	(78,794)	–
Currency Translation Adjustment	–	–	(5)	(5)	(5)
Equity-based Compensation	–	404,850	–	404,850	–
Vested Deferred Restricted Common Units	5,804,294	–	–	–	–
Repurchase of Common Units	(645,162)	(16,045)	–	(16,045)	–
Balance at December 31, 2007	259,826,700	4,226,500	345	4,226,845	$ 1,616,111
Net Loss	–	(1,163,032)	–	(1,163,032)	$(1,163,032)
Currency Translation Adjustment	–	–	(636)	(636)	(636)
Purchase of Interests from Predecessor Owners	–	(74,278)	–	(74,278)	–
Repurchase of Common Units	(902,874)	(5,338)	–	(5,338)	–
Deferred Tax Effects Resulting from Acquisition of Ownership Interests	–	5,164	–	5,164	–
Distribution to Unitholders	–	(319,897)	–	(319,897)	–
Equity-based Compensation	–	818,076	–	818,076	–
Net Delivery of Vested Common Units	4,601,493	(26,525)	–	(26,525)	–
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	9,473,165	34,471	–	34,471	–
Issuance of Blackstone Holdings Partnership Units for GSO Acquisition	–	14,307	–	14,307	–
Balance at December 31, 2008	272,998,484	$ 3,509,448	$ (291)	$ 3,509,157	$(1,163,668)

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in Thousands)	2008	2007	2006
Operating Activities			
Net Income (Loss)	$ (1,163,032)	$ 1,623,237	$ 2,266,206
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Blackstone Funds Related:			
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(3,723,723)	1,521,303	3,950,664
Net Realized (Gains) Losses on Investments	164,726	(3,800,137)	(5,054,995)
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	624,061	(13,630)	(585,555)
Non-Cash Performance Fees and Allocations	1,086,058	(187,070)	–
Equity-Based Compensation Expense	3,302,617	1,765,188	–
Intangible Amortization	153,237	117,607	–
Other Non-Cash Amounts Included in Net Income	19,688	11,221	(41,929)
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Cash Held by Blackstone Funds and Other	(743,628)	643,410	(447,068)
Cash Relinquished with Deconsolidation of Partnership	(1,092)	(884,480)	–
Due from Brokers	763,744	(414,053)	(398,196)
Accounts Receivable	45,281	337,824	(431,044)
Due from Affiliates	(185,314)	(969,055)	(76,700)
Other Assets	(32,441)	(53,602)	(21,252)
Accrued Compensation and Benefits	157,528	95,059	20,257
Accounts Payable, Accrued Expenses and Other Liabilities	819,572	242,969	38,470
Due to Affiliates	182,090	805,687	47,665
Amounts Due to Non-Controlling Interest Holders	(48,630)	7,659	113,188
Blackstone Funds Related:			
Investments Purchased	(30,242,498)	(33,655,862)	(14,638,659)
Cash Proceeds from Sale of Investments	30,712,191	31,956,429	10,862,334
Net Cash Provided by (Used in) Operating Activities	1,890,435	(850,296)	(4,396,614)
Investing Activities			
Purchase of Furniture, Equipment and Leasehold Improvements	(50,113)	(32,307)	(24,190)
Elimination of Cash for Non-Contributed Entities	–	(23,292)	–
Cash Paid for Acquisition, Net of Cash Acquired	(336,571)	–	–
Changes in Restricted Cash	5,004	–	–
Net Cash Used in Investing Activities	(381,680)	(55,599)	(24,190)
Financing Activities			
Issuance of Common Units in Initial Public Offering and to Beijing Wonderful Investments	–	7,501,240	–
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(2,124,621)	(5,731,806)	(6,653,590)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	520,494	7,132,074	12,321,339
Contributions from Predecessor Owners	–	583,773	212,594
Distributions to Predecessor Owners	–	(2,932,918)	(1,551,957)
Purchase of Interests from Predecessor Owners	(109,834)	(4,570,756)	–
Net Settlement of Vested Common Units and Repurchase of Common Units	(31,863)	(16,045)	–
Proceeds from Loans Payable	1,172,236	5,254,787	7,634,786
Repayment of Loans Payable	(980,162)	(5,497,113)	(7,499,857)
Distributions to Common Unitholders	(319,897)	(78,794)	–
Net Cash Provided by (Used in) Financing Activities	(1,873,647)	1,644,442	4,463,315
Effect of Exchange Rate Changes on Cash and Cash Equivalents	–	639	518

See notes to consolidated and combined financial statements.

continued

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Year Ended December 31, 2008	2007	2006
Net Increase (Decrease) in Cash and Cash Equivalents	$ (364,892)	$ 739,186	$ 43,029
Cash and Cash Equivalents, Beginning of Period	868,629	129,443	86,414
Cash and Cash Equivalents, End of Period	$ 503,737	$ 868,629	$ 129,443
Supplemental Disclosures of Cash Flow Information			
Payments for Interest	$ 22,038	$ 60,326	$ 79,469
Payments for Income Taxes	$ 46,880	$ 75,899	$ 19,669
Supplemental Disclosure of Non-Cash Operating Activities			
Net Activities Related to Investment Transactions of Consolidated Blackstone Funds	$ –	$ –	$ 2,119,246
Supplemental Disclosure of Non-Cash Financing Activities			
Non-Cash Distributions to Non-Controlling Interest Holders	$ –	$ (22,169)	$ 138,967
Non-Cash Distributions to Partners	$ –	$ 49,763	$ 32,987
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ –	$ –	$ 2,241,660
Elimination of Capital of Non-Contributed Entities	$ –	$ 118,947	$ –
Elimination of Non-Controlling Interests of Non-Contributed Entities	$ –	$ 163,906	$ –
Transfer of Partners' Capital to Non-Controlling Interests	$ –	$ 2,216,284	$ –
Distribution Payable to Predecessor Owners	$ –	$ 65,995	$ –
Settlement of Vested Common Units	$ 170,626	$ –	$ –
Conversion of Blackstone Holding Units to Common Units	$ 34,471	$ –	$ –
Reorganization of the Partnership:			
Accounts Payable, Accrued Expenses and Other Liabilities	$ (82,028)	$ (2,255,804)	$ –
Non-Controlling Interest in Consolidated Entities	$ 82,028	$ 2,255,804	$ –
Exchange of Founders and Senior Managing Directors' Interests in Blackstone Holdings:			
Deferred Tax Asset	$ (34,427)	$ (745,837)	$ –
Due to Affiliates	$ 29,263	$ 633,961	$ –
Partners' Capital	$ 5,164	$ 111,876	$ –
Acquisition of GSO Capital Partners LP – Units Issued	$ 280,400	$ –	$ –

See notes to consolidated and combined financial statements.

Notes to Consolidated and Combined Financial Statements

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

1. ORGANIZATION AND BASIS OF PRESENTATION

The Blackstone Group L.P. (the "Partnership"), together with its consolidated subsidiaries (collectively, "Blackstone"), is a leading global alternative asset manager and provider of financial advisory services. The alternative asset management businesses include the management of corporate private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation ("CLO") vehicles and publicly traded closed-end mutual funds and related entities that invest in such funds, collectively referred to as the "Blackstone Funds." "Carry Funds" refers to the corporate private equity funds, real estate funds and certain of the credit-oriented funds that are managed by Blackstone. Blackstone also provides various financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

Basis of Presentation – The accompanying consolidated and combined financial statements include (1) subsequent to the reorganization as described below, the consolidated accounts of Blackstone, and (2) prior to the reorganization the entities engaged in the above businesses under the common ownership of the two founders of Blackstone, Stephen A. Schwarzman and Peter G. Peterson, Blackstone's other senior managing directors and selected other individuals engaged in some of Blackstone's businesses, personal planning vehicles beneficially owned by the families of these individuals and a subsidiary of American International Group, Inc. ("AIG"), collectively referred to as the "predecessor owners". "Founders" refers to Stephen A. Schwarzman and Peter G. Peterson for periods prior to Mr. Peterson's retirement from Blackstone on December 31, 2008 and Stephen A. Schwarzman only for periods thereafter.

Certain of the Blackstone Funds are included in the consolidated and combined financial statements of the Partnership. Consequently, the consolidated and combined financial statements of the Partnership reflect the assets, liabilities, revenues, expenses and cash flows of these consolidated Blackstone Funds on a gross basis. The majority economic ownership interests in these funds are reflected as Non-Controlling Interests in Consolidated Entities in the consolidated and combined financial statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital.

The Partnership's interest in Blackstone Holdings (see "Reorganization of the Partnership" below) is within the scope of the Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). Although the Partnership has a minority economic interest in Blackstone Holdings, it has a majority voting interest and controls the management of Blackstone Holdings. Additionally, although the Blackstone Holdings' limited partners hold a majority economic interest in Blackstone Holdings, they do not have the right to dissolve the partnership 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 interest for the economic interests of limited partners of the Blackstone Holdings partnerships.

Certain prior period financial statement balances have been reclassified to conform to the current presentation.

Reorganization of the Partnership – 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 our founders, Stephen A. Schwarzman, and Blackstone's other senior managing directors.

Blackstone's business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its predecessor owners. In order to facilitate the initial public offering, as described in further detail below, the predecessor owners completed a reorganization as of the close of business on June 18, 2007 (the "Reorganization") whereby, with certain limited exceptions, each of the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name, were contributed ("Contributed Businesses") to five newly-formed holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.) or sold to wholly-owned subsidiaries of the Partnership (which in turn contributed them to the five Blackstone Holding entities described above). The Partnership, through wholly-owned subsidiaries, is the sole general partner of each of the Blackstone Holdings partnerships.

On January 1, 2009, in order to simplify Blackstone's structure and ease the related administrative burden and costs, Blackstone effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. The economic interests of The Blackstone Group L.P. in Blackstone's business remains entirely unaffected. "Blackstone Holdings" refers to the five holding partnerships prior to the

January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization.

The Reorganization was accounted for as an exchange of entities under common control for the interests in the Contributed Businesses which were contributed by the Founders and the other senior managing directors (collectively, the "Control Group") and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group pursuant to Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141").

Blackstone also entered into an exchange agreement with holders of partnership units in Blackstone Holdings (other than the Partnership's wholly-owned subsidiaries) so that these holders, subject to the vesting, 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 exchange their Blackstone Holdings Partnership Units for Blackstone Common Units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Until the Blackstone Common Units issued in such exchanges are transferred to third parties, they will forego any priority distributions under Blackstone's cash distribution policy as described in Note 10. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for one common unit in the Partnership. The terms "Blackstone Holdings Partnership Unit" or "partnership unit in/of Blackstone Holdings" refer collectively to a partnership unit in each of the Blackstone Holdings partnerships.

Undistributed earnings of the Contributed Businesses through the date of the Reorganization inured to the benefit of the predecessor owners.

Initial Public Offering – On June 27, 2007, the Partnership completed the initial public offering ("IPO") of its common units representing limited partner interests in the Partnership. Upon the completion of the IPO, public investors indirectly owned approximately 14.1% of the equity in Blackstone. Concurrently with the IPO, the Partnership completed the sale of non-voting common units, representing approximately 9.3% of the equity in Blackstone, to Beijing Wonderful Investments, an investment vehicle subsequently transferred to China Investment Corporation. On October 28, 2008, the agreement with Beijing Wonderful Investments was amended whereby it, and certain of its affiliates, are restricted in the future from engaging in the purchase of Blackstone common units that would result in its aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis exceeding 12.5%, an increase from 10% at the date of the IPO. In addition, Blackstone common units that Beijing Wonderful Investments or its affiliates own in excess of 10% aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis are not subject to any restrictions on transfer but are non-voting while held by Beijing Wonderful Investments or its affiliates.

The Partnership contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (1) purchase interests in the Contributed Businesses from the predecessor owners (which interests were then contributed to Blackstone Holdings in exchange for newly-issued Blackstone Holdings Partnership Units) and (2) purchase additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

Consolidation and Deconsolidation of Blackstone Funds – In accordance with accounting principles generally accepted in the United States of America ("GAAP"), a number of the Blackstone Funds were historically consolidated into Blackstone's combined financial statements.

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone Fund (with the exception of Blackstone's then existing proprietary hedge funds and four of the funds of hedge funds) took the necessary steps to grant rights to the unaffiliated investors in each respective fund to provide that a simple majority of the fund's unaffiliated investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. The granting of these rights resulted in the deconsolidation of such investment funds from the Partnership's consolidated financial statements and the accounting of Blackstone's interest in these funds under the equity method. With the exception of certain funds of hedge funds, hedge funds and credit-oriented funds, these rights became effective on June 27, 2007 for all Blackstone Funds where these rights were granted. The effective date of these rights for the applicable funds of hedge funds was July 1, 2007. The consolidated results of these funds have been reflected in the Partnership's consolidated and combined financial statements up to the effective date of these rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The consolidated and combined financial statements are prepared in accordance with GAAP.

Principles of Consolidation – The Partnership's policy is to combine, or consolidate, as appropriate, those entities in which it, through Blackstone personnel, have control over significant operating, financial or investing decisions of the entity.

For Blackstone Funds that are determined to be variable interest entities ("VIE"), Blackstone consolidates those entities where it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of such entities pursuant to the requirements of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities* – an interpretation of ARB 51 ("FIN 46(R)"). At each reporting date, Blackstone assesses whether it continues to, or has begun to, absorb such majorities and will appropriately consolidate a VIE. Blackstone's other disclosures regarding VIEs are discussed in Note 4. In addition, Blackstone consolidates those entities it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control over them pursuant to FASB Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). The provisions under both FIN 46(R) and EITF 04-5 have been applied retrospectively to prior periods. Intercompany transactions and balances have been eliminated.

For operating entities over which the Partnership exercises significant influence but which do not meet the requirements for consolidation, the Partnership uses the equity method of accounting whereby it records its share of the underlying income or losses of these entities.

Use of Estimates – The preparation of the consolidated and combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues, expenses and other income during the reporting periods. Actual results could differ from those estimates and such differences could be material to the consolidated and combined financial statements.

Cash and Cash Equivalents – The Partnership considers all highly liquid short term investments with original maturities of 90 days or less when purchased to be cash equivalents.

Cash Held by Blackstone Funds and Other – Cash Held by Blackstone Funds and Other consists of cash and cash equivalents held by the Blackstone Funds which, although not legally restricted, is not available to fund the general liquidity needs of Blackstone and cash held by certain general partner entities.

Investments, At Fair Value – The Blackstone Funds are, for GAAP purposes, investment companies under the AICPA Audit and Accounting Guide *Investment Companies* that reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies") as well as Securities Sold, Not Yet Purchased at fair value. The Partnership has retained the specialized accounting for the Blackstone Funds pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation* ("EITF 85-12"). Thus, such consolidated funds' investments are reflected 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 and Combined 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).

The fair value of the Partnership's Investments and Securities Sold, Not Yet Purchased are based on observable market prices when available. Such prices are based on the last sales price on the measurement date, or, if no sales occurred on such date, at the close of business "bid" price and if sold short, at the "ask" price or at the "mid" price depending on the facts and circumstances. Futures and options contracts are valued based on closing market prices. Forward and swap contracts are valued based on market rates or prices obtained from recognized financial data service providers.

A significant number of the investments, including our carry fund investments, have been valued by the Partnership, in the absence of observable market prices, using the valuation methodologies described below. Additional information regarding these investments is provided in Note 4 to the consolidated and combined financial statements. 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, including appropriate risk adjustments for nonperformance and liquidity risks. The Partnership estimates the fair value of investments when market prices are not observable as follows:

Corporate private equity, real estate and debt investments – For investments for which observable market prices do not exist, such investments are reported at fair value as determined by the Partnership. Fair value is determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA") and balance sheets, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. With respect to real estate investments, in determining fair values management considered projected operating cash flows and balance sheets, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of private investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may also be derived by reference to observable valuation measures for comparable companies or assets (e.g., 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. Corporate private equity and real estate investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. These valuation methodologies involve a significant degree of management judgment.

Funds of hedge funds – Blackstone Funds' direct investments in hedge funds ("Investee Funds") are stated at fair value, based on the information provided by the Investee Funds which reflects the Partnership's share of the fair value of the net assets of the investment fund. If the Partnership determines, based on its own due diligence and investment procedures, that the valuation for any Investee Fund based on information provided by the Investee Fund's management does not represent fair value, the Partnership will estimate the fair value of the Investee Fund in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

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 matrixes, market transactions in comparable investments and various relationships between investments.

Certain Blackstone Funds sell securities that they do not own, and will therefore be obligated to purchase such securities at a future date. The value of an open short position is recorded as a liability, and the fund records unrealized appreciation or depreciation to the extent of the difference between the proceeds received and the value of the open short position. The applicable Blackstone Fund records a realized gain or loss when a short position is closed. By entering into short sales, the applicable Blackstone Fund bears the market risk of increases in value of the security sold short. The unrealized appreciation or depreciation as well as the realized gain or loss associated with short positions is included in the Consolidated and Combined Statements of Operations as Net Gains (Losses) from Fund Investment Activities.

Securities transactions are recorded on a trade date basis.

Equity Method Investments – Blackstone's general partner interests in the applicable Blackstone Funds are within the scope of EITF 04-5. Historically, Blackstone has consolidated its general partners' interests in the corporate private equity, real estate and mezzanine funds and certain funds of hedge funds that it manages. In conjunction with its IPO and as described in Note 1, Blackstone granted rights to unaffiliated limited partner fund investors to provide that a simple majority of the fund's investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. Consequently, these general partners no longer control, but retain significant influence over, the activities of certain of the funds and will account for these general partners' interests using the equity method of accounting pursuant to Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"). Blackstone's equity in earnings (losses) from equity method investees is included in Investment Income and Other in the Consolidated and Combined Statements of Operations as such investments represent an integral part of Blackstone's business.

Blackstone also invests in entities other than its managed funds. In such instances where Blackstone exerts significant influence, but not control, typically when its percentage voting interest in such investments is between 20% and 50%, the Partnership accounts for these investments using the equity method of accounting.

The Partnership evaluates for impairment its equity method investments, including any intangibles and goodwill related to the acquisition of such investments, whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable in accordance with APB 18. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary.

Accounts Receivable – Accounts Receivable consists primarily of amounts due to Blackstone's fund placement business, amounts relating to redemptions from the underlying hedge funds in Blackstone's funds of hedge funds, amounts due from limited partners for fund management fees, and receivables related to Advisory Fees and client expenses.

Investment Subscriptions Paid in Advance – Investment Subscriptions Paid in Advance by the Partnership represent cash paid prior to the effective date of an investment to facilitate the deployment of investment proceeds to affiliated and third party managers.

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 lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally 15 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.

Business Combinations – The Partnership accounts for acquisitions using the purchase method of accounting in accordance with SFAS No. 141. The purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The consolidated and combined financial statements of the Partnership for the periods presented does not reflect any business combinations. However, the acquisition of non-controlling interests described in Notes 1 and 3 is accounted for using the purchase method of accounting pursuant to SFAS No. 141.

Goodwill and Intangible Assets – SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), does not permit the amortization of goodwill and indefinite-lived assets. Under SFAS No. 142, these assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred.

Identifiable finite lived intangible assets are amortized over their estimated useful lives ranging from 5 to 20 years, which are periodically reevaluated for impairment or when circumstances indicate impairment may have occurred in accordance with SFAS No. 144. Our intangible assets consist of the contractual right to future fee income from management, advisory and incentive fee contracts and the contractual right to earn future carried interest from our corporate private equity, real estate and certain credit-oriented funds. No goodwill or other intangible assets were impaired as of December 31, 2008.

Non-Controlling Interests in Consolidated Entities – Non-controlling interests related to the corporate private equity, real estate and certain credit-oriented funds are subject to on-going realizations and distributions of proceeds therefrom during the life of a fund with a final distribution at the end of each respective fund's term, which could occur under certain circumstances in advance of or subsequent to that fund's scheduled termination date. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors in these funds following the expiration of a specified period of time or may only be withdrawn subject to a redemption fee (typically between one and three years) in the funds of hedge funds and certain credit-oriented funds when capital may not be withdrawn. When redeemed amounts become legally payable to investors on a current basis, they are reclassified as a liability.

In many cases, the Partnership's general partner interests in the Blackstone Funds entitle the Partnership to an allocation of income (a "carried interest" or incentive fee) in the event that the fund achieves specified cumulative investment returns. The carried interest to the Partnership ranges from 10% to 20%. The incentive fees range from 5% to 20%. The Partnership records such allocations in the determination of the Non-Controlling Interests in Income of Consolidated Entities when the returns at the respective Blackstone Funds meet or exceed the cumulative investment returns to the limited partners established in the relevant agreements.

Amounts Due to Non-Controlling Interest Holders – Amounts Due to Non-Controlling Interest Holders consist primarily of shareholder/investor redemptions and capital withdrawals payable by the Blackstone Funds.

Derivatives and Hedging Activities – The Partnership enters into derivative financial instruments for investment purposes and to manage interest rate and foreign exchange risk arising from certain assets and liabilities. All derivatives are recognized as either assets or liabilities in the Consolidated and Combined Statements of Financial Condition and measured at fair value. Derivatives used in connection with investment activities are recorded at fair value and changes in value are recorded in income currently.

Cash Flow Hedges – For qualifying cash flow hedges, the Partnership records the effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments in Other Comprehensive Income, which is a component of Partners' Capital. Any ineffective portion of the cash flow hedges is included in current period income. The Partnership's hedging activities are immaterial to the consolidated and combined financial statements.

Foreign Currency Translation and Transactions – Non-U.S. dollar denominated assets and liabilities are translated at year-end rates of exchange, and the Consolidated and Combined Statements of Operations accounts are translated at rates of exchange in effect throughout the year. Foreign currency gains and losses resulting from transactions outside of the functional currency of an entity are included in Net Income. The impact of these transactions to the consolidated and combined financial statements was not significant.

Comprehensive Income – Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of unrealized gains and losses on cash flow hedges and foreign currency cumulative translation adjustments.

Management and Advisory Fees – The Partnership has reclassified into a single revenue component the amounts historically reported as Fund Management Fees and Advisory Fees. Historically, in certain management fee arrangements, Blackstone received a fee attributable to fund performance. Such amounts have been reclassified and included in Performance Fees and Allocations.

Performance Fees and Allocations – Performance Fees and Allocations represent the preferential allocations of profits ("carried interest") which are a component of Blackstone's general partners interests in the carry funds. Blackstone is entitled to carried interest from an investment carry fund in the event investors in the fund achieves cumulative investment returns in excess of a specified rate. In certain performance fee arrangements related to funds of hedge funds and hedge funds in the Marketable Alternative Asset Management segment, Blackstone is entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In all cases, each fund is considered separately in that regard and for a given fund, performance fees and allocations can never be negative over the life of the fund.

Investment Income and Other – Investment Income and Other principally reflects the investment performance, realized and unrealized, of Blackstone's investments in the Blackstone Funds as well as Blackstone's equity in earnings (loss) from equity method investees.

Compensation and Benefits – Compensation includes salaries, bonuses (discretionary awards and guaranteed amounts), performance payment arrangements and the amortization of equity-based compensation as described below. Bonuses are accrued over the service period to which they relate. Benefits include both senior managing directors' and employees' benefit expense. Prior to the IPO, payments made to senior managing directors were accounted for as partnership distributions rather than as employee compensation and benefits expense.

Equity-based Compensation – Equity-based compensation is accounted for under the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), which revises SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Under SFAS No. 123(R), the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. Further, as required under SFAS No. 123(R), the Partnership estimates forfeitures for equity-based awards that are not expected to vest.

Performance Payment Arrangements – The Partnership has implemented "performance payment arrangements" for its personnel who are working in its businesses across the different operations that are designed to appropriately align performance and compensation. These performance payment arrangements generally provide annual cash payments to Blackstone personnel (including senior managing directors) that are determined at the discretion of senior management and are tied to the performance of the Partnership's businesses and may, in certain cases, be based on participation interests in the earnings derived from the performance of the applicable business. In addition, a portion of the carried interest and Performance Fees and Allocations earned subsequent to the Reorganization with respect to certain funds is due to senior managing directors and employees. These amounts are accounted for by the Partnership as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation expense. To the extent previously recorded revenues are adjusted to reflect decreases in the performance fees based on underlying funds' valuations at period end, related profit sharing arrangements previously accrued are also adjusted and reflected as a credit to current period compensation expense. Currently, approximately 40% of the carried interest earned under these arrangements is paid to these individuals who work in the related operations. Departed partners are also entitled to their vested share of carried interest distributions received from the Partnership's carry funds and as other partners are also liable for their applicable share of losses on carry funds subject to a cap related to the carried interest distributions they received from a carry fund.

Net Income (Loss) Per Common Unit – The Partnership computes Net Income (Loss) per Common Unit in accordance with SFAS No. 128, *Earnings Per Share*. Basic Net Income (Loss) per Common Unit is computed by dividing income (loss) available to common unitholders by the weighted-average number of common units outstanding for the period. Diluted Net Income (Loss) per Common Unit reflects the assumed conversion of all dilutive securities. Prior to the Reorganization, Blackstone's business was conducted through a large number of entities as to which there was no single holding entity but which were separately owned by Blackstone personnel. There was no single capital structure upon which to calculate historical earnings per unit information. Accordingly, earnings per unit information has not been presented for historical periods prior to the Reorganization.

Income Taxes – Blackstone has historically operated as a partnership or limited liability company for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. As a result, income has not been subject to U.S. federal and state income taxes. Generally, the tax liability related to income earned by these entities represent obligations of the individual partners and members and have not been reflected in the historical combined financial statements. Income taxes shown on the Partnership's historical Combined Statements of Operations are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

Blackstone uses the liability method to account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred 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 the deferred tax assets will not be realized.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

Following the Reorganization, the Blackstone Holdings partnerships and certain of their subsidiaries continue to 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 continue to be 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 is reflected in the consolidated financial statements.

Recent Accounting Developments – In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets, liabilities, contractual contingencies and contingent consideration obtained in the transaction (whether for a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Partnership obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160"). SFAS No. 160 requires reporting entities to present non-controlling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. The Partnership is currently evaluating the impact of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand how those instruments and activities are accounted for; how and why they are used; and their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. As SFAS No. 161 only affects financial statement disclosure, the impact of adoption will be limited to financial statement disclosure.

In March 2008, the EITF reached a consensus on Issue No. 07-4, *Application of the Two-Class Method under FASB Statement No. 128, "Earnings Per Share, to Master Limited Partnerships* ("EITF 07-4"). EITF 07-4 applies to master limited partnerships that make incentive equity distributions. EITF 07-4 is to be applied retrospectively beginning with financial statements issued in the interim periods of fiscal years beginning after December 15, 2008. The Partnership is currently evaluating the impact of EITF 07-4 on its consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP No. 142-3 affects entities with recognized intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The new guidance applies prospectively to (1) intangible assets that are acquired individually or with a group of other assets and (2) both intangible assets acquired in business combinations and asset acquisitions. The Partnership is currently evaluating the impact that the adoption of FSP No. 142-3 may have on its consolidated financial statements.

In June 2008, the FASB issued Staff Position EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF No. 03-6-1"). FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share*. FSP EITF No. 03-6-1 requires entities to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The Partnership is currently evaluating the impact that the adoption of FSP EITF No. 03-6-1 may have on its consolidated financial statements.

In September 2008, the FASB issued FSP FAS No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* ("FSP FAS No. 133-1 and FIN 45-4"). FSP FAS No. 133-1 and FIN 45-4 requires enhanced disclosures about credit derivatives and guarantees. The FSP is effective for financial statements issued for reporting periods ending after November 15, 2008. The adoption of FSP FAS No. 133-1 and FIN 45-4 did not have a material impact on the Partnership's consolidated and combined financial statements.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP FAS 157-3"), to help constituents measure fair value in markets that are not active. FSP FAS 157-3 is consistent with the joint press release the FASB issued with the Securities and Exchange Commission ("SEC") on September 30, 2008, which provides general clarification guidance on determining fair value under SFAS No. 157 when markets are inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of FSP 157-3 did not have a material impact on the Partnership's consolidated financial statements.

In December 2008, the FASB issued FSP FAS No. 140-4 and FIN 46R-8 *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* ("FSP FAS 140-4 and FIN 46R-8"). FSP FAS 140-4 and FIN 46R-8 require additional disclosures about transfers of financial assets and involvement with variable interest entities. The requirements apply to transferors, sponsors, servicers, primary beneficiaries and holders of significant variable interests in a variable interest entity or qualifying special purpose entity. FSP FAS 140-4 and FIN 46R-8 is effective for financial statements issued for reporting periods ending after December 15, 2008. FSP FAS 140-4 and FIN 46R-8 affect only disclosures and therefore did not have a material impact on the Partnership's consolidated financial statements.

3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

Acquisition of Non-Controlling Interests at Reorganization

Pursuant to the Reorganization transaction described in Note 1, the Partnership acquired interests in the predecessor businesses from the predecessor owners. These interests were acquired, in part, through an exchange of Blackstone Holdings Partnership Units and, in part, through the payment of cash.

This transaction has been accounted for partially as a transfer of interests under common control and, partially, as an acquisition of non-controlling interests in accordance with SFAS No. 141. The vested Blackstone Holdings Partnership Units received by the Control Group in the Reorganization are reflected in the consolidated and combined financial statements as non-controlling interests at the historical cost of the interests they contributed, as they are considered to be the Control Group of the predecessor organization. The vested Blackstone Holdings Partnership Units received by holders not included in the Control Group in the Reorganization are accounted for using the purchase method of accounting under SFAS No. 141 and reflected as non-controlling interests in the consolidated financial statements at the fair value of the interests contributed as these holders are not considered to have been in the group controlling Blackstone prior to the Reorganization. Additionally, ownership interests were purchased with proceeds from the IPO. The cash paid in excess of the cost basis of the interests acquired from members of the Control Group has been charged to equity. Cash payments related to the acquisition of interests from holders outside of the Control Group has been accounted for using the purchase method of accounting.

The total consideration paid to holders outside of the Control Group was $2.79 billion and reflected (1) 69,093,969 Blackstone Holdings Partnership Units issued in the exchange, the fair value of which was $2.14 billion based on the initial public offering price of $31.00 per common unit and (2) cash of $647.6 million. Accordingly, the Partnership has reflected the acquired tangible assets at the fair value of the consideration paid. The excess of the purchase price over the fair value of the tangible assets acquired approximated $2.34 billion, the remaining balance of which has been reported in the captions Goodwill and Intangible Assets in the Consolidated Statement of Financial Condition as of December 31, 2008. The finite-lived intangible assets of $876.3 million reflect the value ascribed for the future fee income relating to contractual rights and client or investor relationships for management, advisory and incentive fee arrangements as well as for those rights and relationships associated with the future carried interest income from the carry funds. The residual amount representing the purchase price in excess of tangible and intangible assets (including other liabilities of $55.2 million) is $1.52 billion and has been recorded as Goodwill.

During the quarter ended March 31, 2008, the Partnership finalized the purchase price allocation, including the determination of goodwill attributable to the reporting segments, as provided in the tables below for the acquisition of non-controlling interests at Reorganization.

Purchase Price	$2,789,469
Goodwill	$1,516,720
Finite-Lived Intangible Assets/Contractual Rights	876,270
Other Liabilities	(55,158)
Increase to Non-Controlling Interests in Consolidated Entities	2,337,832
Net Assets Acquired, at Fair Value	451,637
Purchase Price Allocation	$2,789,469

Acquisition of GSO Capital Partners LP

In March 2008, the Partnership completed the acquisition of GSO Capital Partners LP and certain of its affiliates ("GSO"). GSO is an alternative asset manager specializing in the credit markets. GSO manages various credit-oriented funds, including multi-strategy credit hedge funds, mezzanine funds, senior credit-oriented fund and various CLO vehicles. GSO's results from the date of acquisition have been included in the Marketable Alternative Asset Management segment. The purchase consideration of GSO was $635 million, comprised of $355 million in cash and $280 million in Blackstone Holdings Partnership Units, plus up to an additional targeted $310 million to be paid over the next five years contingent upon the realization of specified earnings targets over that period. The Partnership also incurred $6.9 million of acquisition costs. Additionally, performance and other compensatory payments subject to performance and vesting may be paid to the GSO personnel.

During November 2008, in settlement of the Partnership's obligation for the purchase of GSO to deliver Blackstone Holdings Partnership Units valued at closing of $280 million, the Partnership delivered to certain predecessor owners of GSO 15.79 million Blackstone Holdings Partnership Units with a value at settlement of $118.6 million. The difference between the value at closing and the value at settlement resulted in a $14.3 million credit to the Partnership's capital, reflecting the dilution of the Partnership's interest in Holdings from approximately 25% to approximately 24.6%.

This transaction has been accounted for as an acquisition using the purchase method of accounting under SFAS No. 141. The Partnership has finalized the purchase price allocation. The purchase price allocation for the GSO acquisition is as follows:

Purchase Price	$641,894
Finite-Lived Intangible Assets/Contractual Rights	$472,100
Goodwill	186,882
Other Liabilities	(17,650)
Net Assets Acquired, at Fair Value	562
Purchase Price Allocation	$641,894

The Consolidated Statement of Operations for the year ended December 31, 2008 includes the results of GSO's operations from the date of acquisition, March 3, 2008, through December 31, 2008. Supplemental information on an unaudited pro forma basis, as if the GSO acquisition had been consummated as of January 1, 2008 and January 1, 2007, respectively, is as follows:

	Years Ended December 31, (Unaudited) 2008	2007
Total Revenues	$ (324,010)	$3,213,056
Net Income (Loss)	$(1,168,836)	$1,490,519

		For the Period June 19, 2007 through December 31, 2007
Net Loss		$ (171,619)
Net Loss per Common Unit – Basic and Diluted Common Units Entitled to Priority Distributions	$ (4.39)	$ (0.66)
Common Units Not Entitled to Priority Distributions	$ (3.09)	

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Partnership believes are reasonable; it is not necessarily indicative of the Partnership's Consolidated and Combined Financial Condition or Statements of Operations in future periods or the results that actually would have been realized had the Partnership and GSO been a combined entity during the periods presented.

Goodwill and Intangible Assets

The following table outlines changes to the carrying amount of Goodwill and Intangible Assets:

	Goodwill	Intangible Assets
Balance at December 31, 2007	$ 1,597,474	$ 604,681
Additions – GSO Acquisition	186,882	472,100
Purchase Price Adjustments – Reorganization	(80,754)	153,982
Amortization	–	(153,237)
Balance at December 31, 2008	$1,703,602	$1,077,526

Total Goodwill has been allocated to each of the Partnership's segments as follows: Corporate Private Equity – $694,512; Real Estate – $421,739; Marketable Alternative Asset Management – $518,477; and Financial Advisory – $68,874.

Amortization expense associated with our intangible assets was $153.2 million for the year ended December 31, 2008 and is included in General, Administrative and Other in the accompanying Consolidated and Combined Statements of Operations. Amortization of intangible assets held at December 31, 2008 is expected to be approximately $158.0 million in the years ended December 31, 2009, 2010, 2011 and $103.2 million and $51.7 million in the years ended December 31, 2012 and 2013, respectively.

4. INVESTMENTS

Investments

A summary of Investments consist of the following:

	December 31, 2008	2007
Investments of Consolidated Blackstone Funds	$1,556,261	$3,992,638
Equity Method Investments	1,063,615	1,971,228
Performance Fees and Allocations	147,421	1,150,264
Other Investments	63,645	31,026
	$2,830,942	$7,145,156

Blackstone's share of Investments of Consolidated Blackstone Funds totaled $409.2 million and $996.4 million at December 31, 2008 and December 31, 2007, respectively. Equity Method Investments represents investments in non-consolidated funds as described below, of which Blackstone's share totaled $1.01 billion and $1.88 billion at December 31, 2008 and December 31, 2007, respectively.

Investments of Consolidated Blackstone Funds

The following table presents a condensed summary of the investments held by the consolidated Blackstone Funds that are reported at fair value. These investments are presented as a percentage of Investments of Consolidated Blackstone Funds:

Geographic Region/Instrument Type/Industry Description or Investment Strategy	Fair Value December 31, 2008	Fair Value December 31, 2007	Percentage of Investments of Consolidated Blackstone Funds December 31, 2008	Percentage of Investments of Consolidated Blackstone Funds December 31, 2007
United States and Canada				
Investment Funds, principally related to marketable alternative asset management funds				
Credit Driven	$ 695,620	$ 929,902	44.7%	23.3%
Diversified Investments	345,033	693,798	22.2%	17.4%
Equity	34,499	174,534	2.2%	4.4%
Other	648	2,190	0.1%	0.1%
Investment Funds Total (Cost: 2008 $1,283,697; 2007 $1,547,298)	1,075,800	1,800,424	69.2%	45.2%
Equity Securities, principally related to marketable alternative asset management and corporate private equity funds				
Manufacturing	17,532	439,895	1.1%	11.0%
Services	81,515	410,304	5.2%	10.3%
Natural Resources	551	20,051	0.0%	0.5%
Real Estate Assets	1,769	1,958	0.1%	0.0%
Equity Securities Total (Cost: 2008 $112,494; 2007 $837,940)	101,367	872,208	6.4%	21.8%
Partnership and LLC Interests, principally related to corporate private equity and real estate funds				
Real Estate Assets	103,453	168,008	6.6%	4.2%
Services	98,592	143,209	6.3%	3.6%
Manufacturing	23,599	31,234	1.5%	0.8%
Natural Resources	317	–	0.0%	0.0%
Credit Driven	19,659	–	1.3%	0.0%
Partnership and LLC Interests Total (Cost: 2008 $294,846; 2007 $258,197)	245,620	342,451	15.7%	8.6%
Debt Instruments, principally related to marketable alternative asset management funds				
Manufacturing	4,500	4,191	0.3%	0.1%
Services	4,121	2,977	0.3%	0.1%
Real Estate Assets	485	339	0.0%	0.0%
Debt Instruments Total (Cost: 2008 $9,641; 2007 $7,757)	9,106	7,507	0.6%	0.2%
United States and Canada Total (Cost: 2008 $1,700,678; 2007 $2,651,192)	1,431,893	3,022,590	91.9%	75.8%

Geographic Region/Instrument Type/Industry Description or Investment Strategy	Fair Value December 31, 2008	Fair Value December 31, 2007	Percentage of Investments of Consolidated Blackstone Funds 2008	Percentage of Investments of Consolidated Blackstone Funds 2007
Europe				
Equity Securities, principally related to marketable alternative asset management and corporate private equity funds				
Manufacturing	$ 9,105	$ 523,244	0.6%	13.0%
Services	29,635	55,082	1.9%	1.4%
Equity Securities Total (Cost: 2008 $45,295; 2007 $513,237)	38,740	578,326	2.5%	14.4%
Partnership and LLC Interests, principally related to corporate private equity and real estate funds (Cost: 2008 $46,104; 2007 $48,032)	45,246	56,279	2.9%	1.4%
Debt Instruments, principally related to marketable alternative asset management funds (Cost: 2008 $1,256; 2007 $480)	187	452	0.0%	0.0%
Europe Total (Cost: 2008 $92,655; 2007 $561,749)	84,173	635,057	5.4%	15.8%
Asia				
Equity Securities, principally related to marketable alternative asset management and corporate private equity funds				
Services	11,201	129,090	0.8%	3.3%
Manufacturing	8,654	104,235	0.6%	2.6%
Natural Resources	442	17,525	0.0%	0.4%
Real Estate Assets	368	379	0.0%	0.0%
Equity Securities Total (Cost: 2008 $22,155; 2007 $223,382)	20,665	251,229	1.4%	6.3%
Partnership and LLC Interests, principally related to corporate private equity and real estate funds				
Manufacturing	1,184	–	0.1%	0.0%
Real Estate Assets	707	–	0.0%	0.0%
Services	45	–	0.0%	0.0%
Partnership and LLC Interests Total (Cost: 2008 $1,811; 2007 $–)	1,936	–	0.1%	0.0%
Debt Instruments, principally related to marketable alternative asset management funds (Cost: 2008 $256; 2007 $–)	151	–	0.0%	0.0%
Asia Total (Cost: 2008 $24,222; 2007 $223,382)	22,752	251,229	1.5%	6.3%
Other Total (principally related to corporate private equity and marketable alternative asset management funds) (Cost: 2008 $7,669; 2007 $63,918)	17,443	83,762	1.2%	2.1%
Total Investments of Consolidated Blackstone Funds (Cost: 2008 $1,825,224; 2007 $3,500,241)	$1,556,261	$3,992,638	100.0%	100.0%

At December 31, 2008 and 2007, there were no individual investments, which includes consideration of derivative contracts, with fair values exceeding 5.0% of Blackstone's net assets. At December 31, 2008 and 2007, consideration was given as to whether any individual consolidated funds of hedge funds, feeder fund or any other affiliate exceeded 5.0% of Blackstone's net assets. At December 31, 2008 and December 31, 2007, Blackport Capital Fund Ltd. had a fair value of $594.5 million and $903.3 million, respectively, and was the sole feeder fund investment to exceed the 5.0% threshold at each date.

Securities Sold, Not Yet Purchased. The following table presents the Partnership's Securities Sold, Not Yet Purchased held by the consolidated Blackstone Funds, which were principally held by one of Blackstone's proprietary hedge funds. These investments are presented as a percentage of Securities Sold, Not Yet Purchased.

	Fair Value		Percentage of Securities Sold Not Yet Purchased	
	December 31,			
Geographic Region/Instrument Type/Industry Class	**2008**	**2007**	**2008**	**2007**
United States – Equity Instruments				
Services	$ –	$ 597,880	–	50.0%
Manufacturing	–	222,205	–	18.6%
Natural Resources	–	123,498	–	10.3%
Real Estate Assets	–	71,405	–	6.0%
United States Total (Proceeds: 2008 $–; 2007 $1,013,691)	–	1,014,988	–	84.9%
Europe – Equity Instruments				
Manufacturing	–	39,165	–	3.3%
Services	–	26,398	–	2.2%
Europe Total (Proceeds: 2008 $–; 2007 $60,331)	–	65,563	–	5.5%
Asia – Equity Instruments				
Natural Resources	77	163	8.6%	–
Services	611	25,277	68.3%	2.1%
Manufacturing	–	78,381	–	6.5%
Real Estate Assets	206	106	23.1%	–
Asia Total (Proceeds: 2008 $782; 2007 $110,596)	894	103,927	100.0%	8.6%
All other regions – Equity Instruments – Manufacturing				
(Proceeds: 2008 $–; 2007 $11,571)	–	12,380	–	1.0%
Total (Proceeds: 2008 $782; 2007 $1,196,189)	$ 894	$ 1,196,858	100.0%	100.0%

Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds. Net Gains (Losses) from Fund Investment Activities on the Consolidated and Combined Statements of Operations include net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains (losses) resulting from changes in fair value of the consolidated Blackstone Funds' investments. The following table presents the realized and net change in unrealized gains (losses) on investments held through the consolidated Blackstone Funds:

	2008	2007	2006
Realized Gains (Losses)	$ (281,408)	$3,509,318	$4,773,758
Net Change in Unrealized Gains (Losses)	(740,019)	2,796,235	2,491,236
	$(1,021,427)	$6,305,553	$7,264,994

The following reconciles the Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds presented above to the Other Income (Loss) – Net Gains (Losses) from Fund Investment Activities in the Consolidated and Combined Statements of Operations:

	Year Ended December 31,		
	2008	2007	2006
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	$(1,021,426)	$6,305,553	$7,264,995
Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles	52,975	(52,142)	(80,489)
Reclassification to Performance Fees and Allocations and Investment Income (Loss) and Other Attributable to Blackstone Funds Prior to Deconsolidation	–	(1,184,457)	(1,373,734)
Interest and Dividend Income and Other Attributable to Consolidated Blackstone Funds	96,115	354,178	279,373
Other Income – Net Gains (Losses) from Fund Investment Activities	$ (872,336)	$5,423,132	$6,090,145

Investments in Variable Interest Entities. Blackstone consolidates certain variable interest entities ("VIEs") in addition to those entities consolidated under EITF 04-5, when it is determined that Blackstone is the primary beneficiary, either directly or indirectly, through a consolidated entity or affiliate. The assets of the consolidated VIEs are classified principally within Investments. The liabilities of the consolidated VIEs are non-recourse to Blackstone's general creditors. Blackstone's consolidation policy, including the consolidation of VIEs, is discussed in Note 2.

FSP FAS No. 140-4 and FIN 46R-8 provides disclosure requirements for, among other things, involvements with VIEs. Those involvements include when Blackstone (1) consolidates an entity because it is the primary beneficiary, (2) has a significant variable interest in the entity, or (3) is the sponsor of the entity.

The nature of these VIEs includes investments in corporate private equity, real estate, credit-oriented and funds of hedge funds assets. The disclosures under FSP FAS No. 140-4 and FIN 46R-8 are presented on a fully aggregated basis. The investment strategies of Blackstone Funds differs by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of incentive fees and performance fees and allocations. Accordingly, disaggregation of Blackstone's involvement with VIEs would not provide more useful information. In Blackstone's role as general partner or investment advisor, it generally considers itself the sponsor of the applicable Blackstone Fund. For certain of these funds, Blackstone is determined to be the primary beneficiary and hence consolidates such funds within the consolidated and combined financial statements.

FIN 46(R) requires an analysis to (i) determine whether an entity in which Blackstone holds a variable interest is a variable interest entity, and (ii) whether Blackstone's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., incentive and management fees), would be expected to absorb a majority of the variability of the entity. Performance of that analysis requires the exercise of judgment. Blackstone 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 based on certain events. In evaluating whether Blackstone is the primary beneficiary, Blackstone evaluates its economic interests in the fund held either directly by Blackstone or indirectly through employees. The consolidation analysis under FIN 46(R) can generally be performed qualitatively. However, if it is not readily apparent that Blackstone is not the primary beneficiary, a quantitative expected losses and expected residual returns calculation will be performed. Investments and redemptions (either by Blackstone, affiliates of Blackstone or third parties) or amendments to the governing documents of the respective Blackstone Fund could affect an entity's status as a VIE or the determination of the primary beneficiary.

For those VIEs in which Blackstone is the sponsor, Blackstone may have an obligation as general partner to provide commitments to such funds. During 2008, Blackstone did not provide any support other than its obligated amount.

At December 31, 2008, Blackstone was the primary beneficiary of VIEs whose gross assets were $861.3 million, which is the carrying amount of such financial assets in the consolidated financial statements. Blackstone is also a significant variable interest holder or sponsor in VIEs which are not consolidated, as Blackstone is not the primary beneficiary. At December 31, 2008, assets and liabilities recognized in the Partnership's Consolidated and Combined Statements of Financial Condition related to our variable interests in these unconsolidated entities were $140.0 million and $0.2 million, respectively. This consisted of $81.1 million of investments, $58.9 million of receivables, and $0.2 million in liabilities. Blackstone's aggregate maximum exposure to loss was $140.0 million as of December 31, 2008. The difference between the gross assets and Blackstone's maximum exposure to loss represents non-Blackstone interests in the consolidated Blackstone Fund.

Performance Fees and Allocations

Blackstone manages corporate private equity funds, real estate funds, funds of hedge funds and credit-oriented funds that are not consolidated. The Partnership records as revenue (and/or adjusts previously recorded revenue) to reflect the amount that would be due pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. In certain performance fee arrangements related to certain funds of hedge funds and credit-oriented funds in the marketable alternative asset management segment, Blackstone is entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees and allocations are accrued monthly or quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement.

Equity Method Investments

Blackstone invests in corporate private equity funds, real estate funds, funds of hedge funds and credit-oriented funds that are not consolidated. The Partnership accounts for these investments under the equity method of accounting. Blackstone's share of operating income generated by these investments is recorded as a component of Investment Income and Other. That amount reflects the fair value gains and losses of the associated funds' underlying investments since Blackstone retains the specialized investment company accounting of these funds pursuant to EITF 85-12.

A summary of Blackstone's equity method investments follows:

	Equity Held	
	December 31,	
	2008	2007
Equity Method Investments	$1,063,615	$1,971,228

	Equity in Net Income (Loss)		
	Year Ended December 31,		
	2008	2007	2006
Equity in Net Income	$(551,780)	$163,495	$31,760

The summarized financial information of the funds in which the Partnership has an equity method investment is as follows:

	December 31, 2008 and the Year then Ended			
	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Total
Statement of Financial Condition				
Assets				
Investments	$ 15,365,639	$10,341,723	$13,884,206	$ 39,591,568
Other Assets	202,467	397,164	5,188,035	5,787,666
Total Assets	$ 15,568,106	$10,738,887	$19,072,241	$ 45,379,234
Liabilities and Partners' Capital				
Debt	$ 230,891	$ 163,954	$ 1,195,841	$ 1,590,686
Other Liabilities	87,351	116,572	3,980,596	4,184,519
Total Liabilities	318,242	280,526	5,176,437	5,775,205
Partners' Capital	15,249,864	10,458,361	13,895,804	39,604,029
Total Liabilities and Partners' Capital	$ 15,568,106	$10,738,887	$19,072,241	$ 45,379,234
Statement of Income				
Interest Income	$ 8,152	$ 3,920	$ 531,395	$ 543,467
Other Income	11,615	130,203	77,335	219,153
Interest Expense	(4,988)	(10,711)	(60,477)	(76,176)
Other Expenses	(80,948)	(34,179)	(162,898)	(278,025)
Net Realized and Unrealized Gain (Loss) from Investments	(6,147,568)	(6,772,661)	(5,127,463)	(18,047,692)
Net Income (Loss)	$ (6,213,737)	$ (6,683,428)	$ (4,742,108)	$(17,639,273)

Other Investments

Other Investments consist primarily of investment securities held by Blackstone for its own account. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Year Ended December 31,		
	2008	2007	2006
Realized Gains	$ (1,432)	$10,050	$6,791
Net Change in Unrealized Gains (Losses)	(9,159)	2,803	2,514
	$(10,591)	$12,853	$9,305

Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, ("SFAS No. 157"), establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities and listed derivatives. As required by SFAS No. 157, 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. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.
- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, credit-oriented funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

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 investment 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 investment.

The following table summarizes the valuation of Blackstone's investments by the above SFAS No. 157 fair value hierarchy levels as of December 31, 2008 and December 31, 2007, respectively:

	December 31, 2008			
	Level I	Level II	Level III	Total
Investments of Consolidated Blackstone Funds	$ 58,406	$ 994	$1,496,861	$1,556,261
Other Investments	22,499	–	41,146	63,645
Securities Sold, Not Yet Purchased	894	–	–	894

	December 31, 2007			
	Level I	Level II	Level III	Total
Investments of Consolidated Blackstone Funds	$1,639,006	$20,746	$2,332,886	$3,992,638
Other Investments	1,370	–	29,656	31,026
Securities Sold, Not Yet Purchased	1,196,858	–	–	1,196,858

The following table summarizes the Level III investments by valuation methodology as of December 31, 2008:

Fair Value Based on	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Total Investment Company Holdings
Third-Party Fund Managers	–	–	70.0%	70.0%
Specific Valuation Metrics	16.0%	9.0%	5.0%	30.0%
Total	16.0%	9.0%	75.0%	100.0%

The changes in investments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows. The following table does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the current reporting period.

	Year Ended December 31, 2008	2007
Balance, Beginning of Period	$2,362,542	$ 27,564,206
Transfers Out Due to Deconsolidation	–	(29,956,708)
Transfers Out Due to Reorganization	–	(1,892,802)
Transfers In Due to Reorganization	–	28,307
Transfer In (Out) of Level III, Net	(323,422)	(721,900)
Purchases (Sales), Net	108,838	1,848,732
Realized Gains (Losses), Net	2,630	5,485,653
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(612,581)	7,054
Balance, End of Period	$1,538,007	$ 2,362,542

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Fund Investment Activities in the Consolidated and Combined Statements of Operations.

5. CREDIT RISK

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its financial obligations. Certain Blackstone Funds and the Investee Funds are subject to certain inherent credit risks arising from their transactions involving futures, options and securities sold under agreements to repurchase by exposure through its investments.

Various entities of the Partnership invest substantially all of their excess cash in an open-end money market fund and a money market demand account, which are included in Cash and Cash Equivalents. The money market fund invests primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. The Partnership continually monitors the fund's performance in order to manage any risk associated with these investments.

Certain entities of the Partnership 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. The Partnership minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. The Partnership does not expect any counterparty to default on its obligation and therefore does not expect to incur any loss due to counterparty default.

The derivative instruments held by the Partnership, including the consolidated Blackstone Funds, are not material. During the periods presented, the Blackstone operating partnerships held no credit default swaps and only a few of its consolidated Blackstone Funds held an immaterial amount of credit default swaps.

6. DUE FROM BROKERS

Certain Blackstone Funds conduct business with brokers for their investment activities. The clearing and custody operations for these investment activities are performed pursuant to agreements with prime brokers. The Due from Brokers balance represents cash balances at the brokers and net receivables and payables for unsettled security transactions. Blackstone met the criteria for netting under FASB Interpretation 39, *Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105*, as there was no cross netting of receivable and payable amounts between the prime brokers and the netting at each prime broker was deemed appropriate because Blackstone has a valid right of set off (due to a continuous net settlement arrangement) with each of the prime brokers. The applicable Blackstone Funds are required to maintain collateral with the brokers either in cash or securities equal to a certain percentage of the fair value of Securities Sold, Not Yet Purchased.

The applicable Blackstone Funds are subject to credit risk to the extent any broker with which the funds conduct business is unable to deliver cash balances or securities, or clear security transactions on their behalf. The Partnership monitors the financial condition of the brokers with which these funds conduct business and believes the likelihood of loss under the aforementioned circumstances is remote.

7. OTHER ASSETS

Other Assets consists of the following:

	December 31, 2008	2007
Furniture, Equipment and Leasehold Improvements	$194,576	$121,817
Less: Accumulated Depreciation	(75,610)	(57,447)
Furniture, Equipment and Leasehold Improvements, Net	118,966	64,370
Prepaid Expenses	32,413	26,326
Other Assets	14,055	8,670
	$165,434	$ 99,366

Depreciation expense of $18.2 million, $11.2 million and $7.3 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2008, 2007 and 2006, respectively, is included in General, Administrative and Other in the accompanying Consolidated and Combined Statements of Operations.

8. LOANS PAYABLE

The Partnership enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected funds within those business units. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership's credit facilities consist of the following:

	December 31,					
	2008			2007		
	Credit Available	Borrowing Outstanding	Weighted-Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted-Average Interest Rate
Revolving Credit Facility [a]	$1,000,000	$250,000	1.97%	$1,000,000	$ –	0.00%
Operating Entities Facilities[b]	116,750	109,618	2.08%	162,000	105,069	5.50%
Corporate Debt Credit Facilites[c]	90,000	25,000	3.25%	90,000	3,750	7.75%
	1,206,750	384,618	2.08%	1,252,000	108,819	5.58%
Blackstone Fund Facilities[d]	77,566	2,382	3.28%	166,665	21,570	5.10%
	$1,284,316	$387,000	2.09%	$1,418,665	$130,389	5.50%

(a) Represents short-term borrowings under a revolving credit facility that were used to fund the operating and investing activities of entities of the Partnership. Borrowings bear interest at an adjusted LIBOR rate or adjusted prime rate. Any outstanding borrowings at May 11, 2009, the maturity date of the facility, are payable at that time. The facility is unsecured and unguaranteed. There is a commitment fee of 0.375% or 0.5% per annum, as defined, on the unused portion of this facility.

(b) Represents borrowings under a loan and security agreement as well as a capital asset purchase facility. The loan and security agreement facility bears interest at an adjusted rate below the lending bank's prime commercial rate. Borrowings are available for the Partnership to provide partial financing to certain Blackstone employees to finance the purchase of their equity investments in certain Blackstone Funds. The advances to Blackstone employees are secured by investor notes, generally paid back over a four-year period, and the related underlying investment, as well as full recourse to the employees', bonuses and returns from other Partnership investments. The capital asset purchase facility is secured by the purchased asset and borrowings bear interest at a spread to LIBOR. The borrowings are paid down through the termination date of the facility in 2014.

(c) Represents short-term borrowings under credit facilities established to finance investments in debt securities. Borrowings were made at the time of each investment and are required to be repaid at the earlier of (1) the investment's disposition or (2) 120 days after the date of the borrowing. Borrowings under the facilities bear interest at an adjusted LIBOR rate. Borrowings are secured by the investments acquired with the proceeds of such borrowings. In addition, such credit facilities are supported by letters of credit. One of the facilities, with available credit of $50.0 million, carries a commitment fee of 0.15% per annum on the unused portion of the facility.

(d) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Due to the fact that the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds. As of December 31, 2008, the amount disclosed for credit available is $16.5 million less than the maximum amount of one of the facilities. The credit available amount has been limited under the terms of the borrowing facility.

Scheduled principal payments for long-term borrowings at December 31, 2008 are as follows:

2009	$54,084
2010	33,086
2011	23,558
2012	11,269
2013	2,504
Thereafter	10,117
Total	$134,618

9. INCOME TAXES

Prior to the Reorganization, Blackstone provided for New York City unincorporated business tax for certain entities based on a statutory rate of 4%. Following the Reorganization, the Blackstone Holdings Partnerships and certain of their subsidiaries will continue to 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 continue to be subject to the New York City unincorporated business tax 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. Blackstone's effective income tax rate was approximately (3.40)%, 1.58% and 1.39% for the years ended December 31, 2008, 2007 and 2006, respectively.

The provision (benefit) for income taxes consists of the following:

	Year Ended December 31,		
	2008	2007	2006
Current			
Federal Income Tax	$ 426	$ 7,718	$ –
Foreign Income Tax	2,075	2,962	3,433
State and Local Income Tax	6,855	31,142	34,433
	9,356	41,822	37,866
Deferred			
Federal Income Tax	(34,020)	(10,038)	–
State and Local Income Tax	(16,325)	(5,806)	(5,932)
	(50,345)	(15,844)	(5,932)
Total Provision (Benefit) for Taxes	$(40,989)	$ 25,978	$31,934

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,	
	2008	2007
Deferred Tax Assets		
Fund Management Fees	$ 7,936	$ 13,499
Equity-based Compensation	32,364	34,320
Unrealized Loss from Investments	21,694	–
Depreciation and Amortization	731,064	729,491
Net Operating Loss Carry Forward	49,292	–
Other	3,073	–
Total Deferred Tax Assets	$845,423	$777,310
Deferred Tax Liabilities		
Depreciation and Amortization	$ 16,705	$ 10,253
Unrealized Gains from Investments	–	12,906
Total Deferred Tax Liabilities	$ 16,705	$ 23,159

Deferred Tax Liabilities are included within Accounts Payable, Accrued Expense and Other Liabilities in the accompanying Consolidated and Combined Statements of Financial Position.

Under SFAS No. 109, future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. While Blackstone expects to record significant net losses from a financial reporting perspective, Blackstone does not expect to record comparable losses on a tax basis. Whereas the amortization of non-cash equity compensation results in significant expense under GAAP and is a significant contributor to the expected financial reporting losses, for the most part these expenses are not tax deductible and, as a result, do not decrease taxable income or contribute to a taxable loss.

Blackstone 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. Blackstone had taxable income in 2007 and thus fully utilized the tax benefit from the amortization of the tax basis intangibles. Blackstone had a taxable loss of $109.0 million in 2008 and will record a total tax benefit of $49.3 million for the benefit of the carryback and carryforward of such taxable loss. Any loss not carried back and utilized against 2007 taxable income will be carried forward. The material portion of the benefit from the loss will not expire until 2028. Blackstone 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. In addition, at this time, Blackstone'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, including the 2008 taxable loss, will be realized. Therefore, Blackstone has determined that no valuation allowance is needed at December 31, 2008.

The following table reconciles the Provision (Benefit) for Taxes to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2008	2007	2006
Statutory U.S. Federal Income Tax Rate	(35.00)%	35.00%	35.00%
Income Passed Through to Common Unitholders and Predecessor Owners[(a)]	23.76%	(38.39)%	(35.00)%
Interest Expense	(3.49)%	(0.33)%	–
Foreign Income Taxes	0.17%	0.11%	0.15%
State and Local Income Taxes	(0.51)%	1.50%	1.24%
Equity-based Compensation	11.67%	3.69%	–
Effective Income Tax Rate	(3.40)%	1.58%	1.39%

(a) Includes income that primarily arose prior to the IPO and that is not taxable to the Partnership and its subsidiaries, except for New York City unincorporated business tax. Such income was taxable to the Partnership's pre-IPO owners and any U.S. federal, state or local income tax related to this income is paid directly by these owners.

Currently, Blackstone does not believe it meets the indefinite reversal criteria of APB Opinion No. 23, *Accounting for Income Taxes – Special Areas*. Accordingly, where applicable, Blackstone will record a deferred tax liability for a taxable outside basis difference of an investment in a foreign subsidiary.

Blackstone adopted the provisions of FIN 48, which clarifies the accounting and disclosure for uncertainty in tax positions, as defined, on January 1, 2007. Blackstone analyzed its tax filing positions in all of the federal, state and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Based on this review, no reserves for uncertain income tax positions were required to have been recorded pursuant to FIN 48. In addition, Blackstone determined that it did not need to record a cumulative effect adjustment related to the adoption of FIN 48.

Blackstone recognizes accrued interest and penalties related to uncertain tax positions in operating expenses in the Consolidated and Combined Statements of Operations, which is consistent with the recognition of these items in prior reporting periods. As of December 31, 2008, Blackstone did not have a liability recorded for payment of interest and penalties associated with uncertain tax positions.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2008, Blackstone's and the predecessor entities' U.S. federal income tax returns for the years 2005 through 2008 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2004 through 2008. Currently, the City of New York is examining certain subsidiaries' tax returns for the years 2001 through 2006. In addition, HM Revenue and Customs in the U.K. is examining certain U.K. subsidiaries' tax returns for the years 2004 through 2006. Blackstone does not believe that the outcome of these examinations will require it to record reserves for uncertain tax positions pursuant to FIN 48 or that the outcome will have a material impact on the consolidated and combined financial statements. Blackstone does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

10. NET LOSS PER COMMON UNIT

Beginning in the third quarter of 2008, certain unitholders exchanged Blackstone Holdings Partnership Units for Blackstone Common Units. Until the Blackstone Common Units issued in such exchanges are transferred to third parties, the exchanging unitholders will forego any priority distributions referred to below. As a result, net loss available to the common unitholders was allocated between common units entitled to priority distributions and common units not entitled to priority distributions. The Partnership has calculated net loss per unit in accordance with EITF Issue No. 03-06, *Participating Securities and the Two-Class Method Under FASB Statement 128* ("EITF 03-06").

Basic and diluted net loss per common unit for the three and twelve months ended December 31, 2008 are calculated as follows:

	Year Ended December 31, 2008	
	Basic	Diluted
Total Undistributed Loss		
Net Loss Allocable to		
Common Unitholders	$(1,163,032)	$(1,163,032)
Less: Distributions to		
Common Unitholders	237,960	237,960
Total Undistributed Loss	$(1,400,992)	$(1,400,992)
Allocation of Total Undistributed Loss		
Undistributed Loss – Common Unitholders		
Entitled to Priority Distributions	$(1,391,756)	$(1,391,756)
Undistributed Loss – Common Unitholders		
Not Entitled to Priority Distributions	(9,236)	(9,236)
Total Undistributed Loss	$(1,400,992)	$(1,400,992)
Net Loss Per Common Unit – Common Units		
Entitled to Priority Distributions		
Undistributed Loss per Common Unit	$ (5.26)	$ (5.26)
Priority Distributions	0.90	0.90
Net Loss Per Common Unit – Common Units		
Entitled to Priority Distributions	$ (4.36)	$ (4.36)
Net Loss Per Common Unit – Common Units		
Not Entitled to Priority Distributions	$ (3.09)	$ (3.09)
Weighted-Average Common Units		
Outstanding – Common Units		
Entitled to Priority Distributions	264,046,557	264,046,557
Weighted-Average Common Units		
Outstanding – Common Units Not		
Entitled to Priority Distributions	1,501,373	1,501,373
Total Weighted-Average Common		
Units Outstanding	265,547,930	265,547,930

For the year ended December 31, 2008, a total of 31,946,702 unvested deferred restricted common units and 831,549,761 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit.

Basic and diluted net loss per common unit for the period June 19, 2007 to December 31, 2007 are calculated as follows:

	June 19, 2007 through December 31, 2007	
	Basic	Diluted
Net Loss Allocable to		
Common Unitholders	$(335,514)	$(335,514)
Weighted-Average Common		
Units Outstanding	259,979,606	259,979,606
Net Loss per Common Unit	$ (1.29)	$ (1.29)

For the period June 19, 2007 to December 31, 2007, a total of 34,108,113 unvested deferred restricted common units and 827,151,349 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit.

Cash Distribution Policy

Our current intention is to distribute to our common unitholders substantially all of The Blackstone Group L.P.'s net after-tax share of our annual adjusted cash flow from operations in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our 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 distributions to our common unitholders for any ensuing quarter. The declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time.

The partnership agreements of the Blackstone Holdings partnerships provide that until December 31, 2009, the income (and accordingly distributions) of Blackstone Holdings are to be allocated each year:

- first, to The Blackstone Group L.P.'s wholly-owned subsidiaries until sufficient income has been so allocated to permit The Blackstone Group L.P. to make aggregate distributions to its common unitholders of $1.20 per common unit on an annualized basis for such year;
- second, to the other partners of the Blackstone Holdings partnerships until an equivalent amount of income on a partnership interest basis has been allocated to such other partners for such year; and
- thereafter, pro rata to all partners of the Blackstone Holdings partnerships in accordance with their respective partnership interests.

In addition, the partnership agreements of the Blackstone Holdings partnerships will provide for cash distributions, referred 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 Blackstone's 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 tax liabilities.

Until December 31, 2009, Blackstone personnel and others with respect to their Blackstone Holdings Partnership Units will not receive any distributions (other than tax distributions in the circumstances specified above) for a year unless and until our common unitholders receive aggregate distributions of $1.20 per common unit for such year. Blackstone does not intend to maintain this priority allocation after December 31, 2009.

Unit Repurchase Program

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to $500 million of Blackstone Common Units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone Common Units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2008, Blackstone repurchased a combination of 9,221,979 vested and unvested Blackstone Holdings Partnership Units and Blackstone Common Units as part of the unit repurchase program for a total cost of $130.1 million.

11. 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 advisors under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), the majority of which to date were granted in connection with the IPO. The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone Common Units or Blackstone Holdings Partnership Units). As of January 1, 2008, the Partnership had the ability to grant 162,109,845 units under the Equity Plan during the year ended December 31, 2008.

For the year ended December 31, 2008, the Partnership recorded compensation expense of $3.30 billion in relation to its equity-based awards with a corresponding tax benefit of $16.4 million. The Partnership recorded compensation expense of $1.77 billion for the period June 19, 2007 through December 31, 2007. As of December 31, 2008, there was $9.22 billion of estimated unrecognized compensation expense related to unvested awards. That cost is expected to be recognized over a weighted-average period of 4.9 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,135,164,858 as of December 31, 2008. Total outstanding unvested phantom units were 532,794 as of December 31, 2008.

A summary of the status of the Partnership's unvested equity-based awards as of December 31, 2008 and a summary of changes during the period January 1, 2008 through December 31, 2008, are presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
			Equity Settled Awards		Cash Settled Awards	
Unvested Units	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2007	439,153,982	$31.00	34,734,870	$26.65	967,923	$27.23
Granted	7,792,405	8.52	2,851,469	9.39	24,630	16.52
Repurchased	(7,510,488)	31.00	–	–	–	–
Vested	(83,502,416)	29.35	(7,664,625)	23.90	(380,492)	28.11
Exchanged	(128,200)	31.00	167,271	19.62	3,333	15.11
Forfeited	(1,493,851)	31.00	(1,519,377)	26.65	(82,600)	26.76
Balance, December 31, 2008	354,311,432	30.89	28,569,608	25.90	532,794	26.09

During 2008, the Partnership modified certain senior managing directors' Blackstone Holdings Partnership Unit award agreements and subsequently repurchased under the unit repurchase program both vested and unvested units in conjunction with the modifications. A percentage of the cash settlement was paid up front to the senior managing directors and the remaining percentage of the settlement will be held in escrow and in certain cases earned over a specified service period. At the date of such modifications, the Partnership recognized total compensation expense of $185.5 million, which is included in the total equity-based compensation expense of $3.30 billion, related to the modifications and cash settlement. Additional compensation expense related to the portion of the settlement held in escrow will be recognized over the specified service period which ranges from approximately 18 to 50 months.

Units Expected to Vest

The following unvested units, as of December 31, 2008, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	329,270,976	4.7
Deferred Restricted Blackstone Common Units	23,359,795	5.1
Total Equity-Based Awards	352,630,771	4.7
Phantom Units	456,432	1.3

Equity-Settled and Cash-Settled Awards

The Partnership has granted deferred restricted common units to the non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisors and phantom units (cash settled equity-based awards) to the other 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.

Equity-Settled Awards. The fair values have been derived based on the closing price of Blackstone's common stock on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 18% annually by employee class, and a per unit discount, ranging from $0.58 to $9.83 as a majority of these unvested awards do not contain distribution participation rights. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

Cash-Settled Awards. Subject to a non-senior managing director employee's continued employment with Blackstone, the phantom units will vest in equal installments on each of the first, second and third anniversaries of the IPO or, in the case of certain term analysts, in a single installment on the date that the employee completes his or her current contract period with Blackstone. On each such vesting date, Blackstone 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 1% to 18% annually by employee class. Blackstone is accounting for these cash settled awards as a liability calculated in accordance with the provisions of SFAS No. 123(R).

Blackstone paid $6.7 million and $0.5 million to non-senior managing director employees in settlement of phantom units for the year ended December 31, 2008 and for the period June 19 through December 31, 2007, respectively.

Blackstone Holdings Partnership Units

At the time of the Reorganization, Blackstone's predecessor owners and selected advisors received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 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 is accounting for the unvested Blackstone Holdings Partnership Units as compensation expense in accordance with SFAS No. 123(R). The fair values have been derived based on the closing price of Blackstone's common stock 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 8 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 16%, based on historical experience.

Performance Awards

The Partnership has also granted performance-based awards. These awards are based on the performance of certain businesses over the five-year period beginning January 2008, relative to a predetermined threshold. As of December 31, 2008, the thresholds for 2008 were not met and the Partnership has determined that there is too much uncertainty in the probability that the threshold will be exceeded in future periods. As such, the Partnership has not recorded any expense related to these awards for the year ended December 31, 2008. The Partnership will continue to review the performance of these businesses, and, if necessary, will record an expense over the corresponding service period based on the most probable level of anticipated performance. This award will be accounted for as a liability under the guidance provided in SFAS No. 123(R) and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* as the number of units to be granted in 2012 is dependent upon variations in something other than the fair value of the issuer's equity shares, i.e., the businesses' five-year profitability.

Acquisition of GSO Capital Partners LP

In conjunction with the acquisition of GSO, the Partnership entered into equity-based compensation arrangements with certain GSO senior managing directors and other personnel. The arrangements stipulate that the recipient receive cash, equity instruments or a combination of cash and equity instruments to be earned over service periods ranging from three to five years or based upon the realization of specified earnings targets over the period 2008 through 2012. For the non-performance dependent compensation arrangements, the Partnership will recognize the estimated expense on a straight-line basis over the service period. For the performance-based compensation arrangements tied to specified earnings targets, the Partnership estimates compensation expense based upon whether it is probable that forecasted earnings will meet or exceed the required earnings targets and if so, recognizes the expense over the earnings period.

12. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

Blackstone Group considers its Founders, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of December 31, 2008 and 2007, Due from Affiliates and Due to Affiliates were comprised of the following:

	December 31, 2008	December 31, 2007
Due from Affiliates		
Primarily Interest Bearing Advances Made on Behalf of Predecessor Owners and Blackstone Employees for Investments in Blackstone Funds	$ 175,268	$ 143,849
Payments Made on Behalf of Non-Consolidated Entities	58,536	204,701
Management and Performance Fees Due from Non-Consolidated Funds of Funds	50,774	90,696
Amounts Due from Portfolio Companies and Funds	72,376	43,683
Advances Made to Predecessor Owners and Blackstone Employees	8,130	9,749
Investments Redeemed in Non-Consolidated Funds of Funds	496,350	363,176
	$ 861,434	$ 855,854
Due to Affiliates		
Due to Predecessor Owners in Connection with the Tax Receivable Agreement	$ 722,449	$ 689,119
Accrual of Possible Repayment of Previously Received Performance Fees and Allocations	260,018	–
Due to Predecessor Owners and Blackstone Employees	–	65,995
Distributions Received on Behalf of Predecessor Owners and Blackstone Employees	262,737	71,065
Distributions Received on Behalf of Non-Consolidated Entities	22,938	3,315
Payments Made by Non-Consolidated Entities	17,435	2,115
	$1,285,577	$ 831,609

Interests of the Founders, Senior Managing Directors and Employees

In addition, the Founders, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee and allocation arrangements. As of December 31, 2008 and 2007, the Founders', other senior managing directors' and employees' investments in consolidated Blackstone Funds aggregated $507.2 million and $1.27 billion, respectively, and the Founders', other senior managing directors' and employees' share of the Non-Controlling Interests in Income (Loss) of Consolidated Entities aggregated $(281.7) million, $279.7 million and $398.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Revenues from Affiliates

Management and Advisory Fees earned from affiliates totaled $188.3 million, $595.0 million and $405.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

Loans to Affiliates

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled $6.0 million, $6.5 million, and $7.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. No such loans that were outstanding as of December 31, 2008 were made to any director or executive officer of Blackstone since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

Contingent Repayment Guarantee

Blackstone and its personnel who have received carried interest distributions have guaranteed payment on a several basis (subject to a cap), to the corporate private equity, real estate and certain credit-oriented funds of any contingent repayment (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.

Accrual of Possible Repayment of Previously Received Performance Fees and Allocations, which is a component of Due to Affiliates, represents amounts previously paid 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 fair value of the underlying funds' investments as of December 31, 2008. Such obligations were $260.0 million as of December 31, 2008, of which $109.8 million related to Blackstone Holdings and $150.2 million related to non-controlling interest holders. No such obligation existed as of December 31, 2007.

Aircraft and Other Services

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets of the Founders ("Personal Aircraft"). In addition, on occasion, the Founders and their families have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. The Founders paid for their respective purchases of the aircraft themselves and bear all operating, personnel and maintenance costs associated with their operation. In addition, the Founders are charged for their and their families' personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the consolidated and combined financial statements.

Tax Receivable Agreement

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.

Certain subsidiaries of the Partnership which are corporate taxpayers have 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 taxpayers 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 result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

Assuming no 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 $722.4 million over the next 15 years. The present value of these estimated payments totals $146.5 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 agreement are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above. In January 2009 payments totaling $17,018,960 were made to certain pre-IPO owners in accordance with the tax receivable agreement and related to tax benefits we received for the 2007 taxable year.

Other

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

13. COMMITMENTS AND CONTINGENCIES

Guarantees – Blackstone had approximately $12.0 million of letters of credit outstanding to provide collateral support related to a credit facility at December 31, 2008.

Certain real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. At December 31, 2008, such guarantees amounted to $5.0 million.

Debt Covenants – Blackstone's debt obligations contain various customary loan covenants. In management's opinion, these covenants do not materially restrict Blackstone's investment or financing strategy. Blackstone was in compliance with all of its loan covenants as of December 31, 2008.

Investment Commitments – The Blackstone Funds had signed investment commitments with respect to investments representing commitments of $33.8 million as of December 31, 2008. Included in this is $0.5 million of signed investment commitments for portfolio company acquisitions in the process of closing.

The general partners of the Blackstone Funds had unfunded commitments to each of their respective funds totaling $1.39 billion as of December 31, 2008.

Certain of Blackstone's funds of hedge funds not consolidated in these financial statements have unfunded investment commitments to unaffiliated hedge funds of $1.79 billion as of December 31, 2008. The funds of hedge funds consolidated in these financial statements may, but are not required to, allocate assets to these funds.

Contingent Obligations (Clawback) – Included within Net Gains (Losses) from Fund Investment Activities in the Consolidated and Combined Statements of Operations are gains from Blackstone Fund investments. The portion of net gains attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains attributable to non-controlling interest holders are net of carried interest earned by Blackstone. 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. If, at December 31, 2008, all of the investments held by the carry funds, which are at fair value, were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be $1.37 billion, on an after tax basis where applicable, of which $334.3 million related to Blackstone Holdings and $1.03 billion related to current and former Blackstone personnel. These amounts are inclusive of the amounts described in Note 12 under Contingent Repayment Guarantee. A portion of the carried interest paid to current and former Blackstone personnel is held in segregated and/or collateralized accounts in the event of a cash clawback obligation. The segregated accounts and most of the collateralized accounts are not included in the financial statements of the Partnership. At December 31, 2008, $472.8 million was held in such segregated and/or collateralized accounts.

Contingent Performance Fees and Allocations – There were no performance fees and allocations related to marketable alternative asset management funds for the year ended December 31, 2008 attributable to arrangements where the measurement period has not ended.

Litigation – From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. After consultation with legal counsel, management believes the ultimate liability arising from such actions that existed as of December 31, 2008, if any, will not materially affect Blackstone's results of operations, financial position or cash flows.

Operating Leases – The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2024. 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, 2008, 2007 and 2006, was $40.7 million, $30.2 million and $23.9 million, respectively. At December 31, 2008 and 2007, the Partnership maintained irrevocable standby letters of credit cash deposits as security for the leases of $10.4 million and $7.3 million, respectively. As of December 31, 2008, the approximate aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2009	$ 43,697
2010	51,803
2011	45,990
2012	44,875
2013	45,100
Thereafter	325,962
	$557,427

14. 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 four reportable segments:

- Corporate Private Equity – Blackstone's Corporate Private Equity segment comprises its management of corporate private equity funds.
- Real Estate – Blackstone's Real Estate segment comprises its management of general real estate funds and internationally focused real estate funds.
- Marketable Alternative Asset Management – Blackstone's Marketable Alternative Asset Management segment whose consistent focus is current earnings comprises its management of funds of hedge funds, credit-oriented funds, CLO vehicles and publicly-traded closed-end mutual funds. GSO's results from the date of acquisition have been included in this segment.
- Financial Advisory – Blackstone's Financial Advisory segment comprises its corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income, with the Corporate Private Equity, Real Estate and Marketable Alternative Asset Management segments primarily earning 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.

Economic Net Income ("ENI") is a key performance measure used by management. ENI represents segment net income excluding the impact of income taxes and transaction-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. Blackstone's historical combined financial statements for periods prior to the IPO do not include these transaction-related charges nor do such financial statements reflect certain compensation expenses including performance payment arrangements associated with senior managing directors, departed partners and other selected employees. Those compensation expenses were accounted for as partnership distributions prior to the IPO but are included in the financial statements for the periods following the IPO as a component of compensation and benefits expense. The aggregate of ENI for all reportable segments equals Total Reportable Segment ENI. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone's four segments.

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 and combined financial statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

The following table presents the financial data for Blackstone's four reportable segments as of and for the year ended December 31, 2008:

	December 31, 2008 and the Year then Ended				
	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Total Reportable Segments
Segment Revenues					
Management Fees					
Base Management Fees	$ 268,961	$ 295,921	$ 476,836	$ –	$ 1,041,718
Advisory Fees	–	–	–	397,519	397,519
Transaction and Other Fees	80,950	36,046	8,516	–	125,512
Management Fee Offsets	(34,016)	(4,969)	(6,606)	–	(45,591)
Total Management and Advisory Fees	315,895	326,998	478,746	397,519	1,519,158
Performance Fees and Allocations	(430,485)	(819,023)	2,259	–	(1,247,249)
Investment Income (Loss) and Other	(171,580)	(225,984)	(329,485)	13,047	(714,002)
Total Revenues	(286,170)	(718,009)	151,520	410,566	(442,093)
Expenses					
Compensation and Benefits	16,206	76,793	240,955	234,755	568,709
Other Operating Expenses	90,130	55,782	106,027	67,277	319,216
Total Expenses	106,336	132,575	346,982	302,032	887,925
Economic Net Income (Loss)	$ (392,506)	$ (850,584)	$ (195,462)	$108,534	$(1,330,018)
Segment Assets	$2,532,159	$1,677,722	$2,616,697	$549,789	$ 7,376,367

The following table reconciles the Total Reportable Segments to Blackstone's Income (Loss) Before Provision (Benefit) for Taxes and Total Assets as of and for the year ended December 31, 2008:

	December 31, 2008 and the Year then Ended		
	Total Reportable Segments	Consolidation Adjustments	Blackstone Consolidated
Revenues	$ (442,093)	$ 92,732 (a)	$ (349,361)
Expenses	$ 887,925	$3,498,677 (b)	$ 4,386,602
Other Income (Loss)	$ –	$ (872,336) (c)	$ (872,336)
Economic Net Income (Loss)	$(1,330,018)	$ 125,997 (d)	$(1,204,021)
Total Assets	$ 7,376,367	$1,881,544 (e)	$ 9,257,911

(a) The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone consolidated and combined revenues which were eliminated in consolidation.

(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 equity-based compensation to arrive at Blackstone consolidated and combined expenses.

(c) The Other Income adjustment results from the following:

	Year Ended December 31, 2008
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$(105,418)
Fund Expenses Added in Consolidation	66,046
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(832,964)
Total Consolidation Adjustments	$(872,336)

(d) The reconciliation of Economic Net Income (Loss) to Income (Loss) Before Benefit for Taxes as reported in the Consolidated and Combined Statements of Operations consists of the following:

	Year Ended December 31, 2008
Economic Net Income (Loss)	$(1,330,018)
Adjustments	
Amortization of Intangibles	(153,237)
Transaction-Related Charges	(3,331,722)
Other Adjustments	(999)
Decrease in Loss Associated with Non-Controlling Interests in Income of Consolidated Entities Primarily Relating to the Blackstone Holdings Partnership Units Held by Blackstone Holdings Limited Partners	3,611,955
Total Adjustments	125,997
Income (Loss) Before Benefit for Taxes	$(1,204,021)

(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 and combined assets.

The following table presents financial data for Blackstone's four reportable segments as of and for the year ended December 31, 2007:

	December 31, 2007 and the Year then Ended				
	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Total Reportable Segments
Segment Revenues					
Management Fees					
Base Management Fees	$ 254,843	$ 233,072	$ 316,337	$ –	$ 804,252
Advisory Fees	–	–	–	360,284	360,284
Transaction and Other Fees	178,071	348,410	6,630	–	533,111
Management Fee Offsets	(65,035)	(11,717)	(33)	–	(76,785)
Total Management and Advisory Fees	367,879	569,765	322,934	360,284	1,620,862
Performance Fees and Allocations	379,917	623,951	156,980	–	1,160,848
Investment Income and Other	117,533	135,827	148,082	7,374	408,816
Total Revenues	865,329	1,329,543	627,996	367,658	3,190,526
Expenses					
Compensation and Benefits	96,402	145,146	150,330	132,633	524,511
Other Operating Expenses	78,473	54,829	74,728	39,037	247,067
Total Expenses	174,875	199,975	225,058	171,670	771,578
Economic Net Income	$ 690,454	$1,129,568	$ 402,938	$195,988	$2,418,948
Segment Assets	$2,680,692	$3,281,587	$3,041,008	$584,568	$9,587,855

The following table reconciles the Total Reportable Segments to Blackstone's Income Before Provision for Taxes as of and for the year ended December 31, 2007:

	December 31, 2007 and the Year then Ended		
	Total Reportable Segments	Consolidation Adjustments	Blackstone Consolidated
Revenues	$3,190,526	$ (140,378)(a)	$ 3,050,148
Expenses	$ 771,578	$1,993,266(b)	$ 2,764,844
Other Income	$ –	$5,423,132(c)	$ 5,423,132
Economic Net Income	$2,418,948	$ (769,733)(d)	$ 1,649,215
Total Assets	$9,587,855	$3,586,345(e)	$13,174,200

(a) The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone combined revenues which were eliminated in consolidation.

(b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses to arrive at Blackstone consolidated and combined expenses.

(c) The Other Income adjustment results from the following:

	December 31, 2007
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ 131,980
Fund Expenses Added in Consolidation	151,917
Non-Controlling Interests in Income of Consolidated Entities	5,139,235
Total Consolidation Adjustments	$5,423,132

(d) The reconciliation of Economic Net Income to Income Before Provision for Taxes as reported in the Consolidated and Combined Statements of Operations consists of the following:

	Year Ended December 31, 2007
Economic Net Income	$ 2,418,948
Adjustments	
Amortization of Intangibles	(117,607)
Transaction-Related Charges	(1,732,134)
Decrease in Loss Associated with Non-Controlling Interests in Income of Consolidated Entities Primarily Relating to the Blackstone Holdings Partnership Units Held by Blackstone Holdings Limited Partners	1,080,008
Total Adjustments	(769,733)
Income Before Provision for Taxes	$ 1,649,215

(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 and combined assets.

The following table presents financial data for Blackstone's four reportable segments for the year ended December 31, 2006:

	December 31, 2006 and the Year then Ended				
	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Total Reportable Segments
Segment Revenues					
Management Fees					
Base Management Fees	$ 222,509	$128,041	$183,027	$ –	$ 533,577
Advisory Fees	–	–	–	256,914	256,914
Transaction and Other Fees	199,455	144,541	6,581	–	350,577
Management Fee Offsets	(17,668)	(9,452)	(1,215)	–	(28,335)
Total Management and Advisory Fees	404,296	263,130	188,393	256,914	1,112,733
Performance Fees and Allocations	594,494	633,596	67,322	–	1,295,412
Investment Income and Other	128,787	102,444	64,751	3,408	299,390
Total Revenues	1,127,577	999,170	320,466	260,322	2,707,535
Expenses					
Compensation and Benefits	61,882	67,767	74,855	45,563	250,067
Other Operating Expenses	55,841	28,659	53,942	20,886	159,328
Total Expenses	117,723	96,426	128,797	66,449	409,395
Economic Net Income	$1,009,854	$902,744	$191,669	$193,873	$2,298,140

The following table reconciles the Total Reportable Segments to Blackstone's Income Before Provision for Taxes for the year ended December 31, 2006:

	Year then Ended December 31, 2006		
	Total Reportable Segments	Consolidation Adjustments	Blackstone Consolidated and Combined
Revenues	$2,707,535	$ (90,106)[(a)]	$2,617,429
Expenses	$ 409,395	$ 143,694[(b)]	$ 553,089
Other Income	$ –	$6,090,145[(c)]	$6,090,145
Economic Net Income	$2,298,140	$ –	$2,298,140

(a) The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone combined revenues which were eliminated in consolidation.

(b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses to arrive at Blackstone consolidated and combined expenses.

(c) The Other Income adjustment results from the following:

	December 31, 2006
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ 90,106
Fund Expenses Added in Consolidation	143,694
Non-Controlling Interests in Income of Consolidated Entities	5,856,345
Total Consolidation Adjustments	$6,090,145

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Revenues	$ 68,523	$ 353,652	$ (160,254)	$ (611,282)
Expenses	1,098,063	1,163,808	1,132,698	992,033
Other Income (Loss)	(215,636)	189,678	(550,755)	(295,623)
Income (Loss) Before Non-Controlling Interests in Income of Consolidated Entities and Provision for Taxes	$(1,245,176)	$ (620,478)	$(1,843,707)	$ (1,898,938)
Income (Loss) Before Provision for Taxes	$ (246,719)	$ (185,509)	$ (365,499)	$ (406,294)
Net Income (Loss)	$ (250,993)	$ (156,531)	$ (340,331)	$ (415,177)
Net Income (Loss) Attributable to Common Unitholders[(a)]	$ (250,993)	$ (156,531)	$ (340,331)	$ (415,177)
Net Loss Per Common Unit – Basic and Diluted Common Units Entitled to Priority Distributions	$ (0.97)	$ (0.60)	$ (1.27)	$ (1.53)
Common Units Not Entitled to Priority Distributions	N/A	N/A	$ (1.57)	$ (1.53)
Priority Distributions Declared[(b)]	$ 0.30	$ 0.30	$ 0.30	$ 0.30

	Three Months Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Revenues	$ 1,226,368	$ 952,128	$ 526,686	$ 344,966
Expenses	172,150	476,968	1,050,995	1,064,731
Other Income	3,036,482	2,360,343	9,884	16,423
Income (Loss) Before Non-Controlling Interests in Income of Consolidated Entities and Provision for Taxes	$ 4,090,700	$2,835,503	$ (514,425)	$ (703,342)
Income (Loss) Before Provision for Taxes	$ 1,146,046	$ 771,942	$ (107,349)	$ (161,424)
Net Income (Loss)	$ 1,132,076	$ 774,351	$ (113,190)	$ (170,000)
Net Income (Loss) Attributable to Common Unitholders[(a)]	N/A	$ (52,324)	$ (113,190)	$ (170,000)
Net Loss Per Common Unit – Basic and Diluted Common Units Entitled to Priority Distributions	N/A	$ (0.20)	$ (0.44)	$ (0.65)
Common Units Not Entitled to Priority Distributions	N/A	N/A	N/A	N/A
Priority Distributions Declared[(b)]	N/A	N/A	N/A	$ 0.30

(a) Refer to "Reorganization of the Partnership" in Note 1 for further discussion.

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

16. EMPLOYEE BENEFIT PLANS

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain finance and administrative professionals who are participants in the Plan, the Partnership contributes 2% of such professional's pretax annual compensation up to a maximum of one thousand six hundred dollars. In addition, the Partnership will contribute 50% of the first 4% of pretax annual compensation contributed by such professional participants with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2008, 2007 and 2006, the Partnership incurred expenses of $1.3 million, $0.9 million and $0.6 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom ("UK Plan"). All United Kingdom employees are eligible to contribute to the UK 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, 2008, 2007 and 2006, the Partnership incurred expenses of $0.3 million, $0.3 million and $0.2 million in connection with the UK Plan.

17. REGULATED ENTITIES

The Partnership has certain entities that are registered broker-dealers which are subject to the minimum net capital requirements of the Securities and Exchange Commission ("SEC"). The Partnership has continuously operated in excess of these requirements. The Partnership also has an entity based in London which is subject to the capital requirements of the U.K. Financial Services Authority. This entity has continuously operated in excess of its regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various securities commodity pool and trader regulations. This includes a number of U.S. entities which are Registered Investment Advisors under the rules and authority of the SEC.

The regulatory capital requirements referred to above may restrict the Partnership's ability to withdraw capital from its entities. At December 31, 2008, approximately $30.5 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

FORWARD-LOOKING STATEMENTS

This annual report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described in the section entitled "Risk Factors" in Blackstone's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on March 2, 2009, which is accessible on the SEC's website at 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 our SEC filings. Blackstone undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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Additional Financial Information

Please visit www.blackstone.com for our complete 2008 Annual Report on Form 10-K and the other documents we have filed or furnished with the SEC, including our Current Report on Form 8-K containing our press release reporting on our fiscal 2008 financial results.

Copyright Information

NYSE Symbol

BX

Common Unit Price

The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE.

	Sales Price	
2008	High	Low
First Quarter	$22.59	$13.40
Second Quarter	$20.98	$15.91
Third Quarter	$19.50	$14.00
Fourth Quarter	$15.95	$ 4.15

Neither this annual report nor any of the information contained herein constitutes an offer of any Blackstone fund.

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