# Finding it.
# Investing in it.
# Protecting it.
# Building it...

The Blackstone Group® Annual Report 2009

# Contents

# Value.

## Deploying Capital Strategically to Realize Potential

Experience shows that the most compelling opportunities to create value often arise at the bottom of an economic cycle. We believe that 2009 was a case in point. And so, across Blackstone's businesses, we committed our capital, knowledge and talent to identify new investments, protect existing investments and build value for the long term.

Much of our value-creation reflects our established role as stewards of private capital in the public interest. Our Private Equity business realized proceeds from the sale or IPOs of several portfolio holdings and made new investments in quality companies with strong growth potential. In Real Estate, we began late in the year selectively using our substantial resources to buy assets with the potential to benefit as property markets stabilize. Our Blackstone Alternative Asset Management (BAAM) business became the world's largest fund of hedge funds manager, in part due to its unmatched success in preserving the value of clients' assets. Our Credit business has provided financing at attractive returns in a debt-starved marketplace. Additionally, our Financial Advisory business advised on high profile restructuring and M&A transactions to create healthier, more competitive enterprises.

We also invested in our own businesses, expanding our global footprint, launching new initiatives and adding talented people to strengthen our position and leadership for the future.

Through our efforts, we will strive to create a positive impact and long-term value – for our investors, shareholders, clients, portfolio companies and the broader economy.

## Creating Value, Earning Trust

# Sound stewardship of private capital serves the public interest.

The majority of the capital invested by Blackstone is entrusted to us by global public institutions, including pension funds, university endowments, charitable institutions and sovereign wealth funds. We have more than 1,190 limited partners in 50 countries. When we deliver superior returns for our limited partners, we benefit the lives of workers, retirees, students, grant recipients and others around the world who depend on these institutions.

We take this responsibility seriously, knowing that by protecting and growing the capital entrusted to us, we are helping governments to reduce pension shortfalls, allowing current and future retirees to enjoy a more secure retirement, and advancing the missions of numerous worthy organizations in education, community service, healthcare and the arts. The fact that nearly 90% of our limited partners invest in successive Blackstone funds reflects our commitment to delivering performance worthy of their trust.

**37**

**MILLION**

NUMBER OF PENSIONERS WORLDWIDE SERVED BY BLACKSTONE'S PENSION FUND INVESTORS

### Benefitting Pensioners

More than 37 million pensioners worldwide benefit from the returns that are generated by Blackstone's investments. Of this number, nearly 23 million live in the United States – more than half of all U.S. pensioners.

### Higher Returns for Higher Education

Among Blackstone's limited partners are U.S. universities with an enrollment of more than 1.25 million students. This is nearly 8% of the total attendance at U.S. universities.

**$4.1**

**BILLION**

GRANTS MADE ANNUALLY BY FOUNDATIONS THAT ARE BLACKSTONE CLIENTS

### Solid Foundations

The investment returns delivered by Blackstone also benefit grant-making foundations that commit an aggregate $4.1 billion annually toward causes as diverse as healthcare, community development and wildlife conservation. In the United States alone, our limited partners account for approximately 6% of the total grant-making activity each year.

### Supporting Care

Blackstone clients also include hospital endowments. Their financial resources help to offset the rising costs of healthcare in the U.S. and elsewhere, supporting 9.5 million patient visits per year.

### Investing in The Arts

Blackstone's limited partners also include arts endowments such as museums, orchestras and performing arts companies that attract 2.8 million patrons in the U.S. a year, enriching the lives of their audiences and communities.

# Private Equity

**$109 BILLION**

AGGREGATE REVENUES OF PORTFOLIO COMPANIES

## Investing in quality businesses will fuel growth in the next cycle

For Blackstone's private equity business, the current market environment presented a number of attractive investment opportunities. One of our funds acquired SeaWorld Parks & Entertainment (formerly Busch Entertainment), the second largest theme park operator in the U.S. We also participated in the recapitalization of BankUnited, a major Florida-based bank positioned to expand into a regional institution. We supported the acquisition of Birds Eye Foods by Pinnacle Foods Group, a Blackstone portfolio company, to create a powerhouse packaged food business with more than $2.5 billion in sales.

We also delivered value through realizations during the past year despite a difficult economy. Distributions to investors totaled $1.6 billion, or 1.8 times the original investment, and included Stiefel, Sithe Goreway, Vanguard, Cineworld and Orangina. Additional transactions completed after year end include IPOs of TeamHealth and Graham Packaging.

Today, Blackstone operates one of the world's pre-eminent private equity fund

businesses. Our investment strategy aims to create value by identifying great businesses and providing them with the capital, expertise and operational support to maximize their potential. We forge partnerships with talented management teams to achieve exceptional performance over time. A unique contributor to the success of our funds is Blackstone's Portfolio Operations Group, which enhances the performance of our companies through hands-on operational advice, joint procurement programs, and other resources.

Our private equity funds have consistently outperformed their benchmarks, with net IRR for each of Blackstone's closed general private equity funds ranking in the top quartile. As a result of our performance, nearly 90% of our clients invest in successive Blackstone funds. Fee-earning assets under management in our private equity funds totaled $24.5 billion as of December 31, 2009.

**$1.6**

**BILLION**

**OF DISTRIBUTIONS TO INVESTORS IN 2009**

Private Equity

# Creating a leader in packaged food brands

**Pinnacle Foods Group**

In 2009, Blackstone provided additional capital to support our portfolio company, Pinnacle Foods Group, in its $1.3 billion acquisition of Birds Eye Foods. We recognized that combining two pre-eminent brand portfolios would give the resulting business significantly greater scale and enhanced opportunities for value creation both through continued organic growth and further acquisitions.

With such iconic brands as Duncan Hines®, Birds Eye®, Vlasic®, Armour®, Mrs. Butterworth's, Log Cabin, Hungry Man®, Mrs. Paul's® and Van de Kamp's, the expanded Pinnacle Foods is well positioned to increase its market share while broadening its offerings of healthy products. Combined sales are now in excess of $2.5 billion. Pinnacle has recorded strong sales and earnings growth since its acquisition by Blackstone, and is expected to generate industry-leading margins and free cash flows with the addition of Birds Eye.

## A Focus On Health Care

# Innovation is key to providing quality, affordable health care.

For families, employers, healthcare providers and payors, and government at all levels, providing quality, affordable health care is one of the critical concerns in our society. We believe we can play a role in improving the effectiveness of the healthcare marketplace. By investing in companies that offer best-in-class healthcare services and innovative solutions – such as Apria Healthcare Group, Biomet, Catalent Pharma Solutions, DJO, Emcure, HealthMarkets, Stiefel Laboratories, TeamHealth and Vanguard Health Systems – we can enhance the care available to millions of families while providing strong returns for our investors.

260

THOUSAND

OVER 260 THOUSAND EMPLOYEES AND THEIR DEPENDENTS THAT EQUITY HEALTHCARE SERVES

### Equity Healthcare

To improve the quality of health care offered to portfolio company employees and their families, we launched Equity Healthcare in 2008. This healthcare purchasing alliance helps save more than money – its comprehensive health and wellness programs save lives. Personal Nurse Advocates help members manage chronic conditions, access resources, and make diet and lifestyle changes. Equity Healthcare taught the parents of a young diabetic to manage her disease, identified pre-stroke conditions in several employees and helps members stick to prescribed medications and wellness routines. Its programs are so effective that other firms in our industry are now asking Equity Healthcare to help improve the lives of employees of their portfolio companies.

### TeamHealth

Exceptional health care depends on exceptional healthcare professionals. For this reason, Blackstone invested in TeamHealth, one of the top U.S. suppliers of outsourced staffing services for hospitals and other healthcare providers. Our investment helped TeamHealth grow and expand, eventually providing services such as emergency medicine, hospital medicine, anesthesia, radiology, urgent care, and pediatric care to more than 530 hospitals and other locations. In 2009, the IPO of TeamHealth raised $160 million, which the company used to further support its capital structure.

### Vanguard Health Systems

A leading provider of hospital services, with 15 hospitals in the San Antonio, Phoenix, Chicago and suburban Boston areas, Vanguard Health Systems combines the principles of non-profit health care with the business acumen of a privately owned organization. Vanguard collaborates closely with the staff of its hospitals and respects their autonomy, tailoring health services to the needs of each community, and investing in resources and technology to improve patient care. Blackstone's investment in Vanguard will help the company grow its hospital network and invest in additional improvements in care.

### Decoding the Human Genome

Blackstone is an investor in Pacific Biosciences, a company pioneering the development of an exciting new DNA sequencing technology. The company's Single Molecule Real Time (SMRT™) Biology promises to revolutionize the life sciences by decoding complex molecular structures. By revealing genetic and environmental factors that affect human health, this can lead to new treatments and new hope. This technology, now nearing commercialization, is also supported by leading life sciences companies, the National Institutes of Health and the National Human Genome Research Institute.

$140

MILLION

EXPECTED ANNUAL COST SAVINGS FROM THE EQUITY HEALTHCARE PROGRAM THROUGH 2011

# Real Estate

## Staying disciplined in a challenging commercial real estate market

Despite the turmoil in the global real estate markets, Blackstone's Real Estate Group maintained its strategic vision and completed the year in a strong position. The Group added over $700 million of fee-earning AUM during 2009 with virtually no realized losses. During 2009, we restructured billions of dollars of debt, allowing our real estate funds to benefit from the nascent recovery. Our funds are heavily weighted toward "world class" assets that are highly sought after as markets stabilize. We have some $12 billion to invest in what we expect to be an opportune point in the cycle. The success of Blackstone Real Estate Partners Europe III, which in 2009 completed fund raising of over €3.1 billion, is evidence of our limited partner loyalty and market leadership.

The Group has pursued a disciplined approach that has achieved excellent results for our limited partners in good times and bad for over 18 years. We sold over $60 billion of assets in 2005–2007, well in advance of the downturn, returning capital to investors and materially reducing investment debt levels. We avoided investment in residential real estate and

[redacted]

**$23.7**
**BILLION**

**FEE-EARNING ASSETS UNDER MANAGEMENT**

in commercial real estate development projects, which were some of the hardest hit assets in this cycle. We maintained a conservative approach to financing our investments. Most importantly, we did virtually no investing for nearly two years as the commercial real estate markets were undergoing rapid deterioration.

In late 2009, with operating fundamentals starting to stabilize, we began to return to acquisitions selectively. At year end 2009, we acquired a 50% interest in the Broadgate office complex in London. The Group also expanded its focus to a range of real estate debt opportunities–including publicly traded debt securities, whole loan originations, mezzanine loans, real estate loan acquisitions, rescue financing and preferred equity–that we believe are substantially mispriced.

We believe that with ample capital to invest and a patient, thoughtful approach, we will generate excellent risk-adjusted returns as real estate markets continue to improve.

**$12.1**
**BILLION**

**AVAILABLE CAPITAL TO INVEST**

# Real Estate

## Selectively recommitting capital to resilient real estate markets

**Broadgate Office Park**

Recognizing that the "bottoming out" of the global real estate markets would pose attractive opportunities, Blackstone acquired 50% of Broadgate, the largest office complex in London's financial district, in 2009. Operated as a joint venture with The British Land Company, the complex includes 14 Broadgate buildings and two recently completed sister buildings.

Broadgate shares qualities with many of Blackstone's most successful prior real estate transactions: high quality real estate, a great location, and very attractive acquisition pricing for the long term (50% of peak value just two years prior). We believe that our acquisition will help stimulate a recovery of the City of London office market while leading to well above average investment returns.

## Energy Independence And The Environment

# Addressing energy needs and environmental concerns will provide attractive investment opportunities.

Around the world, corporations, governments and consumers are actively seeking means to reliably deliver alternative power sources, promote energy efficiency, or reduce greenhouse gases. At Blackstone, we aim to identify market-based solutions to these vital needs that will also generate exceptional value for investors.

### Cleantech Venture Fund

Blackstone created Cleantech Venture Partners to invest in businesses focused on reducing energy consumption and improving the environment. We seek to finance innovation across a range of categories, including renewable power such as solar, wind and geothermal, green building materials, transportation and industrial efficiency, emissions control, energy storage and other new technologies.

### Alternative Clean Power

Among Blackstone's investments in alternative power are Transmission Developers Inc. (TDI) and Meerwind. TDI is developing a power transmission line to bring affordable, renewable power to New York and New England from Canada. Called the Champlain-Hudson Power Express, the transmission line will help meet the needs of high-demand areas with clean, renewable energy and will run under waterways to minimize impact on the environment and local communities. Meerwind, developed in partnership with a German energy enterprise, is one of the North Sea's largest wind farm projects. The wind farm will consist of 80 wind turbines with a combined generation capacity of 400 megawatts, to be located 80 kilometers off the northern coast of Germany.

**$8.7**

**BILLION**

**INVESTED BY BLACKSTONE IN INDUSTRIES BEING TRANSFORMED BY CLEAN TECHNOLOGIES**

### Reducing Deforestation

Blackstone is investing in a pioneering forestry plantation project in South America with the potential to limit deforestation and reduce carbon emissions. By establishing large-scale eucalyptus forestry plantations, the project's creators hope to provide an alternative source of timber for both construction and energy uses, thus reducing the pressure on native forests, such as the irreplaceable Amazon rainforest.

**OVER**

**50%**

**REDUCTION OF OUR DATA CENTER ENERGY USAGE AND COSTS AS A RESULT OF ONGOING FACILITY CONSOLIDATION**

### Global Sustainability Initiatives

Blackstone is actively seeking to improve sustainability across our operations and within our portfolio companies. Our ongoing efforts to consolidate our firm's data centers, including energy-efficient technology, should reduce energy usage and costs by well over 50%. In London, our private equity team is working on measures to significantly reduce the carbon footprint of our London headquarters. Blackstone Real Estate Partners became the first private equity real estate fund to join the Better Buildings Partnership (BBP), a consortium of U.K. property owners dedicated to improving the sustainability of London commercial buildings and achieving measurable $CO_2$ reductions. Our Portfolio Operations Group is extending its group purchasing activities to encompass more "green" and energy-efficient products and services. Energy-saving measures adopted in our New York offices are also being shared with the building engineers at our other locations.

# Blackstone Alternative Asset Management (BAAM)

**$27.1**

**BILLION**

**TOTAL ASSETS UNDER MANAGEMENT**

## The largest independent discretionary fund of hedge funds manager in the world

In 2009, BAAM led its peers as one of the few funds of hedge funds in the industry to experience positive growth. Fund performance and asset inflows resulted in 15% annual AUM growth, compared to a 10% decline in AUM for the aggregate fund of hedge funds industry (firms over $1 billion), according to *InvestHedge*.

Net inflows of $500 million raised total assets under management to $27.1 billion as of December 31, 2009. BAAM's 2009 performance outpaced its peers as well, with its Composite Index returning over 16.1% on a net basis, compared to 13.4% for the HFRX Global Hedge Fund Index.

BAAM's growth reflects the trust investors have placed in our rigorous due diligence and risk management procedures, which have allowed us to manage business risks, meet clients' liquidity needs, and avoid the frauds that have troubled the hedge fund industry.

With a sharp focus on client service, BAAM customizes each portfolio to meet investor needs. Drawing upon an array of carefully chosen managers and a wide range of investment strategies, portfolios are designed to deliver compelling risk-adjusted returns and mitigate downside risk.

As a result of our prudent approach, many of the world's largest and most sophisticated institutional investors, including corporate, public and union pension funds, sovereign wealth funds, central banks, insurance companies and others, rely upon BAAM to protect assets and provide investment solutions.

# Credit Business – GSO

**28%**

FLAGSHIP CREDIT HEDGE FUNDS NET RETURN IN 2009

## A vital resource in a credit-constrained marketplace

Our credit business performed exceptionally well amid continued volatility in credit markets, due to GSO's deep experience, strong risk management capabilities and scale. One of the world's largest credit-oriented investment managers, GSO manages a broad array of products that span both private and public markets, including mezzanine funds, distressed funds, a multi-strategy credit hedge fund, collateralized loan obligations (CLO's), permanent capital funds and other customized vehicles. GSO ended 2009 with total AUM of $24.2 billion.

Among 2009's highlights, we raised $1.1 billion in our new rescue financing fund and expect the fund to exceed $2 billion in commitments by the final close later this year. Mezzanine lending and rescue financing provide exceptional investment opportunities today, as committed capital remains extremely scarce for middle-market companies. We also took advantage of the market strength and our trading capabilities to sell certain leveraged loan portfolios at substantial gains for our investors. In addition, we recently announced the acquisition of $3.2 billion of CLO assets from Callidus, an Allied Capital company.

At a time when businesses are in need of innovative credit solutions, GSO's extensive market knowledge, vast pools of flexible capital and dominant presence in the credit market are providing many opportunities to create value for investors.

# Credit Business – GSO

## A stable capital structure to support growth

**Crosstex Energy Services**

Crosstex Energy, a midstream natural gas company with an extensive network of pipelines and processing facilities located in two of the most attractive natural gas producing regions in the United States, is well-positioned to benefit from continued drilling activity in its core markets. Beginning in 2008, however, a collapse in commodity prices and restrictive credit markets challenged the viability of the business and negatively impacted its growth.

The Blackstone/GSO Capital Solutions Fund provided Crosstex with a more stable capital structure and the resources to grow, in the form of $125 million in Series A Convertible Preferred Units. This in turn enabled Crosstex to obtain a $725 million bond issue and new bank credit facility. With the business now on a solid financial footing and focused on growth, Blackstone and GSO look forward to further opportunities to invest with Crosstex.

## A Strategic Approach To Building Value

# Positioning companies for future growth and productivity builds long-term value.

Blackstone's focus is on identifying, investing in and enhancing the value of great businesses and attractive assets. We accomplish this through a patient and persistent application of intellectual and financial capital, guided by accomplished management teams and our active involvement in the business. Over time, we have proven our ability to maximize the potential of our portfolio companies by enhancing productivity and profitability, investing in capital improvements, making accretive acquisitions or other strategic initiatives.

$275
MILLION

ANNUALIZED SAVINGS FOR OUR PORTFOLIO COMPANIES OF MORE THAN $275 MILLION

### Improving Operational Performance

Our Portfolio Operations Group plays a key role in growing the value of our portfolio companies. With expertise in areas such as supply chain/procurement, lean processes, health care/benefits and technology, the Group helps businesses become more competitive and efficient. Its CoreTrust and Equity Healthcare networks combine the purchasing power of 43 portfolio companies, leading to annualized savings of more than $275 million.

### A Unique Entertainment Asset

SeaWorld Parks & Entertainment (SPE) is the second largest U.S. theme park business, known for such destinations as SeaWorld, Busch Gardens and Sesame Place. When Anheuser-Busch InBev decided to divest this asset, our leisure/recreation expertise made Blackstone the logical purchaser. Working with SPE's strong management team, we plan to grow the value of the business by investing in new attractions, enhancing the guest experience, and sharing best practices across all of our entertainment and hospitality properties.

### Buy and Build Strategy

We invested along with experienced management in Summit Materials, creating a platform of scale in the heavy building material, asphalt and aggregates sector. Summit has already acquired two regional heavy building materials businesses, and with a commitment of $780 million from Blackstone, has extensive resources to consolidate and grow other construction materials businesses.

### Restructuring Drives Success

We advised Ford Motor Company on a major balance sheet tender and exchange offer that reduced its debt, strengthened its financial and competitive position and bolstered its long-term viability. Blackstone helped develop the complex solution, involving a tender for secured and unsecured debt and an exchange of cash and stock for unsecured convertible notes, reducing total debt by $9.9 billion. This transaction, along with its dramatic operational turnaround, positioned Ford to be the only domestic automaker to avoid government support and succeed during the financial downturn.

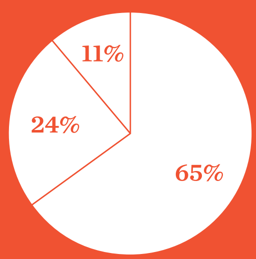
### Realizing Returns

Blackstone's ability to build the value of our portfolio companies produced distributions to investors of approximately $1.6 billion in 2009. One of our largest realizations, Orangina, achieved industry-leading growth under our ownership, and was sold for a 2.4x multiple of invested capital. Stiefel, another major realization last year, strengthened its leadership in dermatology products, and was sold to GlaxoSmithKline.

### Financing a Nutrition Leader

The IPO of Vitamin Shoppe, Inc. in October 2009 raised approximately $155 million. Financing provided by our mezzanine fund helped finance the acquisition of the company, and supported its growth into a leading specialty retailer of nutritional products.

CREATING VALUE THROUGH OPERATIONS




65% Operating Improvement $14.1 billion
24% Multiple Expansion $5.2 billion
11% Debt Paydown $2.3 billion

Reflects investments with gains only and excludes unrealized foreign exchange gains/losses in BCP and BCOM funds as of December 31, 2009.

# Financial Advisory


## Assisting visionary companies with strategic transactions

Blackstone's Financial Advisory team was engaged in a number of significant merger and acquisition assignments in 2009, despite the slowdown in transactions due to the recession. The value of our announced M&A advisory transactions was approximately $40 billion for the year. The Financial Advisory group focuses on a diverse set of industries, with approximately 30% of revenues coming from international clients.

Among our assignments, we advised Xerox Corporation on its $8.3 billion acquisition of Affiliated Computer Services, Inc., which vaulted Xerox into the business process outsourcing market. We assisted Publicis Group SA, one of the world's largest communication groups, on its $530 million purchase of the interactive agency Razorfish from Microsoft. We advised Nestlé S.A on the acquisition of Kraft Foods' Frozen Pizza business, a $3.7 billion transaction, helping Nestlé to expand its presence in the category.

The Financial Advisory team helped clients execute strategic transactions that were critical to their corporate and financial objectives, providing value-added advice on issues of capital structure, carve-outs and other complex matters. Our success results from a highly experienced team focused on our core principles, including protecting client confidentiality, prioritizing our client's interests, avoidance of conflicts and senior-level attention.

# Restructuring


## At the center of an active environment for reorganization

The rising demand for reorganizations in a distressed economy drove our restructuring business to record levels in 2009. Over the past year, our team was active in distressed situations involving over $530 billion of liabilities in North America and Europe, generating record fee income.

Blackstone has advised companies, creditors, corporate parents, investors and acquirers of troubled companies in Chapter 11 reorganizations and out-of-court restructurings. Recent clients included: Allied Capital, American Axle & Manufacturing, BAA, Ford Motor Company, General Motors, Goodyear, Mauser, MBIA, Nortek, Northern Rock, Parex Banka, Sea Dragon Offshore Limited and SemGroup.

In 2009 we maintained a leading role in advising financial institutions, as well as in government-sponsored reorganizations. In North America, we also were a top restructuring adviser in the automotive sector and assumed a leadership role in out-of-court restructurings. In Europe, we also were at the forefront of advising on businesses with failed syndications and provided clients with innovative debt advisory solutions.

Blackstone's team is well regarded for its skill in managing complex, high-profile engagements. We are known as an independent, conflict-free advisor, with vast expertise in an array of industries, a senior-level team with broad knowledge of global markets, and the ability to craft highly specialized solutions.

**Xerox Corporation**

Xerox Corporation, a global leader in document management, technology and services, turned to Blackstone's Financial Advisory team for assistance with its transformational acquisition of Affiliated Computer Services, Inc. (ACS) in 2009.

By acquiring ACS, the world's largest diversified Business Process Outsourcing (BPO) company, Xerox was able to realize its strategy to become the leading global enterprise for end-to-end document management. The transaction expanded Xerox's portfolio of products and services and its addressable market, while providing increased scale, higher recurring revenues and accelerated growth. Valued at approximately $8.3 billion, the deal was the largest M&A transaction in the technology sector in 2009 and the largest BPO transaction in history.

Financial Advisory

# A transformational acquisition for a technology leader

## The Blackstone Charitable Foundation

# Foster entrepreneurship as a catalyst in creating enduring value.

Blackstone was founded in 1985 by Steve Schwarzman and Pete Peterson with $400,000 in assets and a wealth of entrepreneurial spirit and vision. As befits an organization with our enterprising heritage, Blackstone believes in the power of entrepreneurship to build great businesses, grow the economy and create enduring value.

The Blackstone Charitable Foundation, established in 2007 at the time of the firm's IPO, was endowed with substantial personal commitments from our employees. Recently, the Foundation announced The Blackstone Entrepreneurship Initiative, a $50 million five-year commitment to support innovative programs that foster entrepreneurship and, in turn, the high-growth businesses and industries that are most known to spark economic growth. The Foundation will focus its resources on producing enduring results in geographies hardest hit by the economic crisis.

### A Launching Pad for Aspiring Entrepreneurs

The Blackstone Entrepreneurship Initiative's first major investment is a $2 million grant to create "Blackstone LaunchPad," which will work with higher education institutions in Southeast Michigan to nurture entrepreneurial activity among undergraduate and graduate students. Presenting entrepreneurship as a viable career option, the program is modeled after a successful program started by the University of Miami, which has helped 1,000 students and alumni develop their ideas for new enterprises. The Blackstone LaunchPad provides the practical skills, mentorship and professional contacts that make the difference. The Foundation will replicate the Miami LaunchPad model, in conjunction with Detroit's New Economy Initiative for Southeast Michigan, helping to foster an entrepreneurial environment that draws ambitious young people to create new businesses in Detroit. This investment can play an important part in the economic recovery of this distressed region.

In addition to its primary focus on entrepreneurship, the Foundation makes grants to other organizations that benefit the communities where we live and work, including those in which Blackstone's employees, clients and investors are personally engaged.

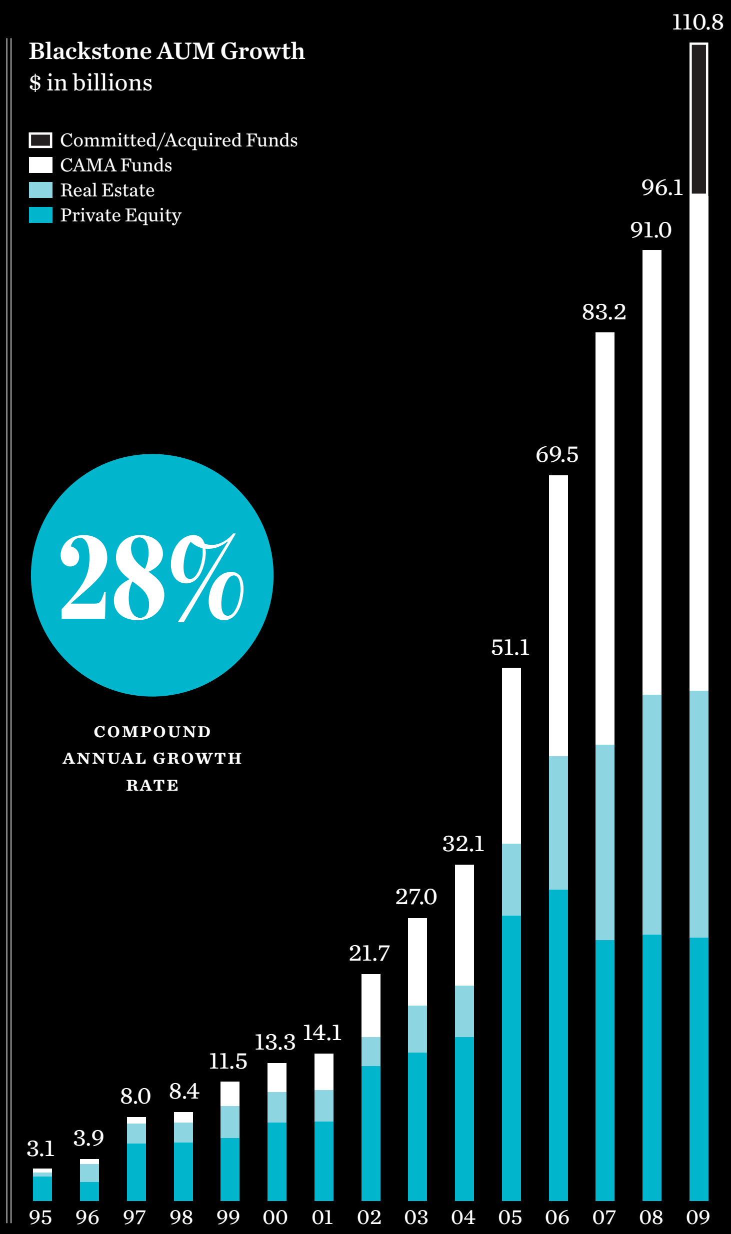
The Blackstone Charitable Foundation was the single largest contributor to the National Association for the Advancement of Colored People (NAACP) Centennial Fund. Blackstone also donated real estate in two prime New York City office buildings for four years, helping the organization relocate from temporary space it has utilized since losing its offices on September 11, 2001.

**$50**
**MILLION**

**THE BLACKSTONE CHARITABLE FOUNDATION IS COMMITTING $50 MILLION OVER 5 YEARS TO SUPPORT INNOVATIVE AND SUSTAINABLE ENTREPRENEURSHIP AND JOB CREATION PROGRAMS IN THE UNITED STATES AND AROUND THE WORLD.**

# Financial Highlights

## Assets under management are growing and increasingly diversified.




Graph represents total Blackstone AUM through 2006 and fee-earning AUM thereafter.

# 11

**$111 BILLION IN FEE-EARNING AUM AND COMMITTED/ACQUIRED FUNDS**

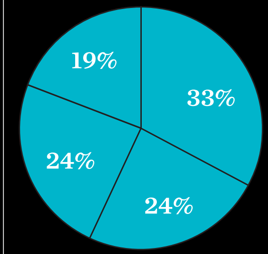
## Financial Highlights

# $27 billion in dry powder provides tremendous investing capacity.

27

# Blackstone's business mix has continued to provide stability.

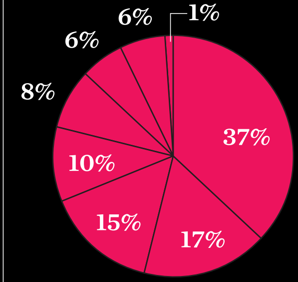
## 2009 Net Fee Related Earnings




33% Real Estate
$135.2 million
24% Private Equity
$97.8 million
24% CAMA
$99.6 million
19% Financial Advisory
$77.8 million


TOTAL
NET FEE RELATED
EARNINGS

## Limited Partners By Type




37% Public Pension
17% Corporate Pension
15% Financial Institutions
10% Sovereign Wealth Funds
8% Private – High Net Worth / Family Office
6% Fund of Funds
6% Foundations/Endowments
1% Unions


88% OF BLACKSTONE'S
CLIENTS INVEST
IN SUCCESSIVE FUNDS

## Letter To Unitholders

# "Historically, our periods of strongest performance have followed economic downturns."

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

## Dear Unitholders,

Blackstone's conservative business model, combined with our strong risk controls and experience investing through several market cycles, enabled the firm to weather the severe economic downturn and emerge with our position and potential in our industry enhanced. Now, as opportunities arise in a reviving economy, we are using our deep resources of financial and global intellectual capital to build value for our investors, clients, unitholders, portfolio companies, and the communities in which we live and work.

For the global economy, and particularly for financial institutions and their investors, the outlook is decidedly more positive today than it was a year ago. Markets that were near collapse have been stabilized. Valuations of many asset classes have rebounded significantly from their mid-2009 lows. Credit is more available and certainly more affordable, although lending institutions remain highly selective. While a broad economic recovery may be sub-optimal in the near term by high unemployment, weak consumer spending and uneven corporate performance, the situation has improved to a degree that was difficult to imagine a year ago.

Much of the credit for the global economic improvement must go to those governments whose initiatives averted a worldwide depression. European authorities were successful in stabilizing their banking systems. China enacted a significant stimulus program. The U.S. government's response of a combination of low interest rates, the TARP program and expanded guarantees for certain bank deposits and money market fund assets, among other measures, helped shore up public confidence and pulled our financial system back from the brink.

While the recovery measures were being deployed, however, considerable investor wealth was destroyed and has not yet recovered fully. Although Blackstone certainly was tested during this period, we were able to better preserve investors' capital, outperforming market indices.

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

Blackstone has built a diversified, soundly capitalized and nimble business that performs well across market cycles. The business is supported by a formidable balance sheet, with a large capital base, strong liquidity and minimal debt at the corporate level. 2009 provided us with an opportunity to further diversify our capital resources with a highly successful $600 million bond offering.

We moved in a prudent fashion to protect the value of our investments in portfolio companies as signs of a bubble became evident. Several years ago, we sold 80% of our investments and began shifting our focus in Private Equity to mid-market transactions, financed our deals with defensive capital structures and reduced our exposure to cyclical businesses. Early on, we counseled our portfolio company management teams to begin planning for a "worst case" scenario. We took advantage of credit market conditions to buy back, amend or extend the maturities on more than $50 billion of portfolio company debt since the beginning of last year.

We preserved value in Real Estate by realizing approximately $60 billion from asset sales in 2005–2007 and deleveraging the portfolio. Our Blackstone Alternative Asset Management (BAAM) fund of hedge funds business has long adhered to rigorous due diligence and risk management processes, allowing us to avoid the controversies that ensnared many of our peers in that segment. And, our credit businesses used risk management tools to outperform and are benefiting from a greater need for credit availability in the current environment.

**Value Opportunities and the Business Cycle**

Historically, our periods of strongest performance have followed economic downturns, as we identify, invest in and build upon the opportunities created by market dislocations. We believe the present market is no exception and that our diversified business operations afford many ways to benefit from the thaw in the economic climate.

For example, we are seeing an increase in realizations in our Private Equity business, and the environment for new acquisitions has improved, as is typically the case at this stage of the economic cycle. There are encouraging signs of stability in Real Estate and opportunities to invest in high- quality properties at much reduced prices. Our Credit business is extending rescue financing to borrowers on attractive terms. BAAM is unique among its peers in experiencing inflows, as investors seek out asset managers with proven track records of preserving wealth. Our Financial Advisory business is experiencing strong M&A deal flow and restructuring engagements as the economy improves.

We continue to launch new products as we identify attractive opportunities for our limited partners. New initiatives include specialized funds for corporate rescue financing, real estate debt, cleantech and infrastructure investments, and a renminbi-denominated fund in China, all offering access to a range of emerging opportunities for building value.

**2009 Financial Performance**

Total Revenues were $1.8 billion for 2009, a significant increase from the prior year figure of $(349.4) million. This was largely due to a $1.5 billion rise in Performance Fees and Allocations, and a $663.5 million improvement in Investment Income. The year-over-year change was driven by net appreciation of portfolio investments in our Private Equity and Credit and Marketable Alternatives segments, and stabilization in the fair value of the Real Estate portfolio. These increases were partially offset by lower Financial Advisory fees. In contrast, we experienced decreases in values across several of our portfolios on a mark-to-market basis in 2008.

Economic Net Income was $703 million for 2009, a sharp turnaround as compared to the ($1.2) billion reported for the prior year, primarily driven by performance fees, investment income and realized gains from exits. Adjusted Cash Flow from Operations was $526 million, up from $129 million a year ago.

The strength of our relationships with leading global institutions, their confidence in our long-term performance and the rise in equity markets led to an increase in Fee-Earning Assets Under Management to $96.1 billion at the end of 2009, an increase of $5.1 billion from a year earlier. In addition, we raised a further $15 billion during 2009, which will earn management fees and carried interest once invested.

Our financial capacity is reflected in Blackstone's credit ratings: "A" from Standard & Poor's and "A+" from Fitch. This allowed us to access the debt markets in 2009 at favorable rates, with a high-grade bond issuance of $600 million of 10-year 6.625% notes.

For fiscal 2009, Blackstone declared quarterly distributions totaling $1.20 per common unit. Public common unitholders received priority distributions ahead of Blackstone personnel.

**Business Unit Performance**

In Private Equity, our portfolio companies have largely been able to withstand economic dislocation. In 2009, approximately three quarters of the portfolio companies in private equity experienced EBITDA growth and 50% had revenue growth. Our portfolio companies' record of rising EBITDA contrasts with less than half of the S&P 500 companies reporting earnings growth. In part, this performance under extremely adverse conditions was due to our early decision to orient the portfolio toward non-cyclical and defensive businesses such as health care, energy and packaged foods. In addition, our companies' management teams showed great skill in restraining costs and enhancing productivity.

Programs developed by Blackstone's Portfolio Operations Group also played a key role in improving the performance of our portfolio companies. We offer joint procurement programs for a wide array of products and services that leverage the buying power of companies with approximately $109 billion in aggregate revenues. This year, we launched Equity Healthcare, an innovative program that allows private equity sponsored companies to leverage group health care purchasing to improve the quality of care for their employees. Equity Healthcare is currently benefiting over 260,000 employees and family members at 26 portfolio companies. Through 2009, the total savings generated by our procurement programs were $275 million. The Portfolio Operations Group also has dedicated teams to assist companies in applying "lean" manufacturing practices that enhance productivity by reducing waste and inefficiencies. Several portfolio companies participated in the lean process last year, positioning their operations for strong performance as the economy revives.

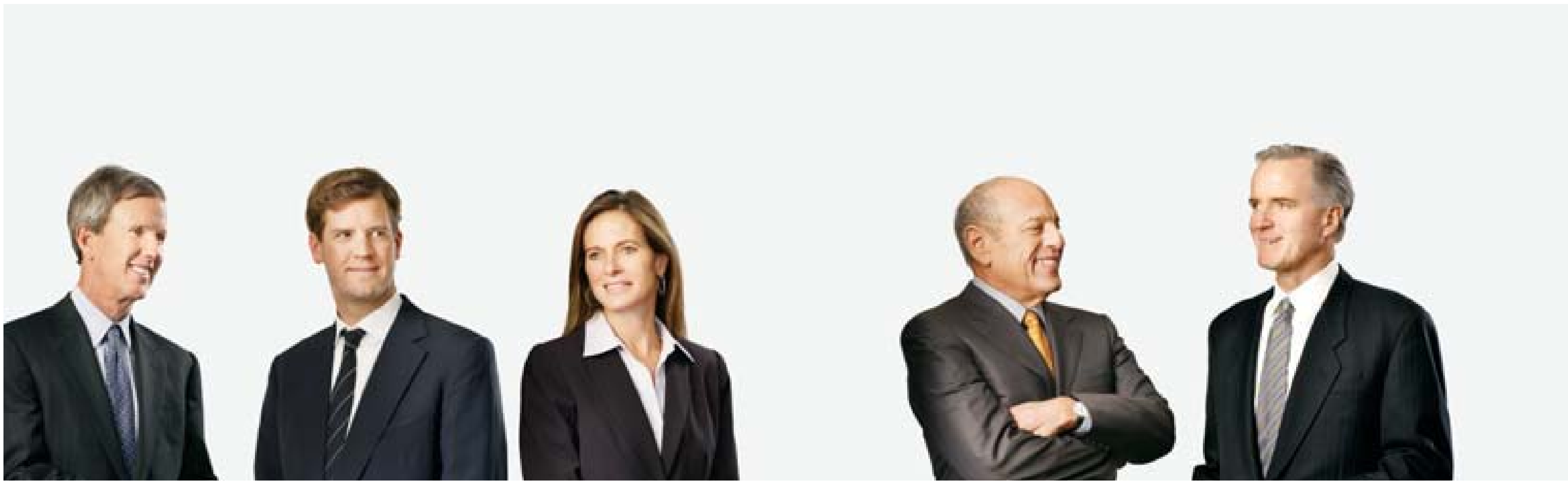
During 2009, sales were completed or announced on several portfolio companies, such as Stiefel, Sithe Goreway, Cineworld and Orangina Schweppes. The majority of these sales were to strategic buyers, providing further evidence of our ability to invest in and build the value of quality companies. These sales generated distributions to our investors of approximately $1.6 billion for Blackstone funds, yielding a 21.6% gross IRR,[1] to fund investors with respect to the divested businesses. In addition, several IPOs of portfolio companies have been completed, including TeamHealth and Graham Packaging.

Private Equity invested or committed a total of $2.3 billion of new or add-on investments during the year. Highlights included the purchase of Birds Eye Foods, a strategic acquisition for one of our portfolio companies, Pinnacle Foods Group; the acquisition of SeaWorld Parks & Entertainment, the second largest entertainment park operator in the U.S.; and a capital investment in Bank United, a previously distressed Florida-based bank, which could potentially purchase additional bank franchises.

Real Estate fundamentals are demonstrating stabilization, suggesting a potential bottoming in 2010. Occupancy rates and RevPAR in the lodging sector remain low,

1 Before deducting management fees, fund expenses and carried interest.

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



although the limited supply of new building prior to the recession should be a positive factor in the eventual recovery. Within the office sector, cash flows remain relatively stable, although vacancies are still high and rents have declined significantly. In some markets, such as New York and London, there has been a meaningful pickup in leasing activity, which is typically a leading indicator of recovery.

We are once again pursuing new real estate investments, albeit very selectively, after two years of waiting patiently on the sidelines. We acquired 50% of Broadgate, the largest office complex in London's financial district, which we saw as an opportunity to buy into one of the best collections of real estate in that market. Our newest real estate fund is focused on investments in a variety of real estate debt strategies, capitalizing on the fact that traditional real estate lenders have largely exited the market while major property owners face substantial liquidity needs. Real Estate invested $884.2 million for 2009 with another $256.6 million committed but not yet invested, or under letter of intent, as of December 31, 2009. Our competitive position in real estate remains extremely strong, with $12.1 billion in dry powder across our real estate funds.

BAAM, housed within our Credit and Marketable Alternatives (CAMA) business, has emerged as the world's largest fund of hedge funds manager. BAAM's total assets under management rose to $27.1 billion, up 17% for the year—one of the few funds of hedge funds to see inflows in 2009. BAAM's investment performance also has been favorable, posting a composite net return of 16% for 2009.

Our Credit business, GSO, with 28% net composite return for our flagship hedge funds in 2009, has delivered strong performance, as prevailing conditions favor those with the capacity to offer credit in a debt-constrained marketplace. GSO has focused on opportunities to provide rescue financing to companies that require liquidity or balance sheet restructuring, as well as on purchases of debt for control, assets sold by distressed sellers and performing debt with dislocated pricing. Our new debt fund, which focuses on rescue financing opportunities, had an initial closing of $1.1 billion. We expect to hold a final close later this year.

The Financial Advisory business also had a strong year, largely due to record fee revenue from restructuring activity. Major transactions during 2009 included the comprehensive restructuring of more than $1 billion in debt for Allied Capital Corporation and a successful prepackaged plan of reorganization for Nortek, Inc. While M&A activity was held back by the economic downturn, our team advised on several significant transactions, including Xerox's acquisition of ACS, Chinalco's proposed investment in Rio Tinto and the restructuring of AIG. We expect merger deal flow to accelerate as we progress through 2010.

**The Blackstone Charitable Foundation**
Creating value means not only delivering a return on investment, but also having a positive impact on the needs of society. At the time of our IPO, we formed

The Blackstone Charitable Foundation to direct our resources toward the communities in which we live and work. The principal mission of the Foundation reflects Blackstone's heritage of entrepreneurship. As a pioneer in our own industry, we have a strong belief in the power of entrepreneurs to create human opportunity and exert a positive economic impact. Thus, the Foundation's chief focus will be on funding initiatives that encourage and support entrepreneurship, and thereby promote job creation, innovation and economic opportunity.

**Finding, Preserving and Building Value**
Blackstone is in a strong position to create value as the world economy resets. We have a liquidity position of more than $2 billion to support the growth of our existing businesses, development of new business lines or acquisitions. We have dry powder of $27 billion in our investment funds to deploy over the next several years. We believe our ability to outperform the industry under the recent extremely adverse conditions has enhanced the Blackstone financial "brand" in the minds of current and potential clients, and is a positive factor in attracting talented team members. And, we have unique strengths, including a global scope of operations; unequalled relationships with key participants in world markets; and deep knowledge in a range of disciplines including private equity, real estate, hedge funds, credit and financial advisory services.

In addition, we believe that our performance in comparison to more traditional asset classes during the downturn will help attract new institutions to alternative assets. We have demonstrated our ability to preserve our investors' wealth, helping to secure the futures of public pension funds, academic and charitable institutions, and all those who depend upon them.

At this time, government and business leaders around the world are considering steps to prevent future financial calamity. In this context, one thing is certain: nothing will be gained by taking adversarial positions, or by focusing blame solely on the financial markets and institutions that provide the vast majority of the capital for innovation, job creation and economic growth. I hope that government and the private sector can demonstrate a shared sense of purpose in doing what is best for the global financial system and those it benefits.

I can commit that Blackstone will continue to vigorously pursue opportunities to find, protect, invest in and build value—with our characteristic combination of entrepreneurship, innovation, excellence, integrity and conservatism. Thank you.

Sincerely,

Steve

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

# Our Guiding Principles

Everything we do is guided by a set of principles that define our character and culture; they have been at the core of Blackstone since its inception. These enduring qualities are the shared convictions that we bring to our professional and personal conduct – they are a fundamental strength of our business.

**1** **Accountability**
Forging a partnership with our investors and clients

**2** **Excellence**
Striving to be the best in everything we do

**3** **Integrity**
Holding ourselves to the highest professional ethics

**4** **Teamwork**
Working together to achieve shared goals

**5** **Entrepreneurship**
Seeing and seizing opportunities overlooked by others

**6** **Leadership**
Influencing the course of commerce and global affairs

**7** **Focus**
Bringing hard work and determination to every endeavor

**8** **Commitment**
Putting our capital and our reputations on the line

**9** **Meritocracy**
Rewarding people based on their performance

# The Peter G. Peterson Award

*2009 Recipient*
**Garfield DeBarros**
Supervisor
U.S. Technology Services

Blackstone has established the Peter G. Peterson Award for Excellence in Business and Community Service. The Award honors our co-founder, Peter G. Peterson, who retired as our Senior Chairman in 2008, and whose contributions in business, government and philanthropy have been an inspiration to all of us.

The Award is given annually to an employee who has demonstrated a commitment to excellence inside and outside of the firm, especially as it relates to service to the community. Candidates are nominated by their peers and chosen by our firm's Executive Committee. They must embody the dedication and service to charitable causes for which Pete has always been known, as well as exceptional professionalism. The Award recipient for 2008 was Erin Sprague – associate, BAAM.

The 2009 recipient is Garfield DeBarros – Supervisor, U.S. Technology Services – who embodies a commitment to service on many levels. Garfield is a partner in the PENCIL program and has devoted considerable time, energy and effort to mentoring students and supporting our adopted school, The Bronx Academy. He is also a board member and volunteer with other charitable organizations serving disadvantaged youth.

Award recipients are distinguished by their passion for service and willingness to commit time, energy and effort to a host of organizations and projects that benefit the community.

These employees are recognized with a donation of $10,000 to a charitable program or programs of their choice and an inscribed cup displayed in Blackstone's reception area.

# Blackstone Financial Section

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

Our Economic Net Income, Net Fee Related Earnings from Operations and Adjusted Cash Flow from Operations for the years ended December 31, 2009 and 2008 were as follows:

| | Year Ended December 31, | |
|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 |
| Economic Net Income, Total Segments | $723,763 | $(1,330,018) |
| Provision (Benefit) for Income Taxes | 20,628 | (162,769) |
| Economic Net Income, After Taxes | $703,135 | $(1,167,249) |
| Net Fee Related Earnings from Operations | $410,410 | $ 427,668 |
| Adjusted Cash Flows from Operations | $526,238 | $ 128,801 |

| | As of December 31, | |
|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 |
| Fee-Earning Assets Under Management: | | |
| Private Equity | $24,521,394 | $25,509,163 |
| Real Estate | 23,708,057 | 22,970,438 |
| Credit and Marketable Alternatives | 47,867,546 | 42,561,456 |
| Total Fee-Earning Assets Under Management | $96,096,997 | $91,041,057 |
| Assets Under Management: | | |
| Private Equity | $24,758,992 | $23,933,511 |
| Real Estate | 20,391,334 | 24,154,642 |
| Credit and Marketable Alternatives | 53,032,802 | 46,471,064 |
| Total Assets Under Management | $98,183,128 | $94,559,217 |

| | Year Ended December 31, | |
|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 |
| Limited Partner Capital Invested | | |
| Private Equity | $1,541,974 | $3,760,262 |
| Real Estate | 884,151 | 968,684 |
| Credit and Marketable Alternatives | 721,401 | 1,819,705 |
| Total Limited Partner Capital Invested | $3,147,526 | $6,548,651 |

Blackstone uses Economic Net Income as a key measure of value creation and as a benchmark of its performance. Additionally, Blackstone presents certain other key financial measures which, 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 initial public offering ("IPO") and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. 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.

## NET FEE RELATED EARNINGS FROM OPERATIONS

Blackstone uses Net Fee Related Earnings from Operations, which is a component of Adjusted Cash Flows from Operations, as a key measure to highlight earnings from operations excluding the income related to performance fees and allocations and related carry plan costs and income earned from Blackstone's investments in the Blackstone Funds and realized and unrealized gains (losses) from other investments. Management uses Net Fee Related Earnings from Operations as a measure to assess whether recurring revenue from our businesses more than adequately covers all of our operating expenses and generates profitability.

Net Fee Related Earnings from Operations equals (a) contractual revenues and interest income, (b) less compensation expenses, which include amortization of non-IPO and acquisition-related equity-based awards, but exclude amortization of IPO and acquisition-based equity awards, carried interest and incentive fee compensation, (c) less other operating expenses and (d) less cash taxes due on earnings from operations as calculated using a similar methodology as applied in calculating the tax provision (benefit) for The Blackstone Group L.P.

### 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 Flows from Operations represents net cash flows used in or provided by operating activities adjusted for (a) IPO and acquisition-related corporate actions, (b) cash flows relating to changes in operating assets and liabilities, (c) Blackstone Funds-related investment activity, (d) net realized gains (losses) on illiquid investments, (e) differences in the timing of realized gains by The Blackstone Group L.P. versus the Blackstone Funds, (f) non-controlling interests related to departed employees, (g) GAAP taxes versus cash income taxes due on realized income as calculated using a similar methodology as applied in calculating the tax provision (benefit) for The Blackstone Group L.P., (h) non-controlling interests in income of consolidated entities, and (i) other adjustments.

Adjusted Cash Flow from Operations will be retired with the end of the distribution preference to public unitholders. Going forward, Blackstone will disclose Distributable Earnings, which is a non-GAAP measure intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all Total Reportable Segments of (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss) less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (e) Cash Taxes. Distributable Earnings will be reconciled to Blackstone's Consolidated Statement of Operations. It is Blackstone's current intention that on an annual basis it will distribute to unitholders all of its Distributable Earnings in excess of amounts determined by its general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future distributions to its unitholders for any ensuing quarter.

### OPERATING METRICS

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

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

(a) 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 on which we receive fees or a carried interest allocation);
(b) the net asset value of our funds of hedge funds, hedge funds and our closed-end mutual funds;
(c) the fair value of assets we manage pursuant to separately managed accounts; and
(d) 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. 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' notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days' notice.

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

(a) for our private equity and real estate funds where the investment period has not expired, the amount of capital commitments;
(b) for our private equity and real estate funds where the investment period has expired, the remaining amount of invested capital;
(c) for our real estate debt investment funds, the remaining amount of invested capital;

(d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;
(e) the invested capital of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees;
(f) the net asset value of our funds of hedge funds, hedge funds and our closed-end mutual funds;
(g) the fair value of assets we manage pursuant to separately managed accounts; and
(h) the gross amount of assets of our CLOs at cost.

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 on which we receive fees or a carried interest allocation.

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

## Our Business

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

Our business is organized into four business segments:

- ***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 private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.
- ***Real Estate.*** We are a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt investment funds. 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 debt investment funds target real estate non-controlling debt related investment opportunities in the public and private markets, primarily in the United States and Europe.
- ***Credit and Marketable Alternatives.*** Established in 1990, our credit and marketable alternatives segment is comprised of our management of funds of hedge funds, credit-oriented funds, collateralized loan obligations ("CLO") vehicles and publicly-traded closed-end mutual funds, in many of which

we are a world leader. 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 private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy as well as other market conditions.

## BUSINESS ENVIRONMENT

World equity and debt markets continued to improve in the second half of 2009 in anticipation of sustained economic recovery. The United States and several other developed economies returned to growth, benefiting in part from government spending programs, and emerging economies grew more sharply. In the U.S., despite tangible evidence of economic recovery, unemployment remains high and consumer credit trends remain weak.

Equity indices improved dramatically throughout 2009 from multi-year lows reached early in the year, when valuations suffered from investor despondency and massive mutual and hedge fund withdrawals. Global equity indices in developed nations increased 20–30% in 2009. Improvement was more pronounced in developing nations, with equity indices increasing 60–100%.

Similarly, credit indices rose sharply, fueled by improving economic data and a significant increase in demand and liquidity. High yield credit spreads tightened roughly 1,100 basis points in 2009, and implied default rates declined to 2–4% versus 12–15% earlier in 2009. Average leveraged loan prices improved from 62% of par at the end of 2008 to 87% at year-end 2009.

In real estate, fundamentals are beginning to show signs of having reached bottom. For office properties, where trends tend to lag the overall economy, vacancy rates appear to have stabilized, with some markets showing signs of decreasing vacancy. In hospitality, demand appears to have bottomed as well, although pricing remains pressured. Revenue per average room ("RevPAR"), an important hospitality industry metric, continued to decline, but that decline clearly moderated in the fourth quarter of 2009. U.S. RevPAR has historically been highly correlated with changes in GDP and corporate profits, which are both being forecasted to improve in 2010. The combination of these factors is expected to set the stage for a recovery in lodging fundamentals. However, the timing and magnitude of the recovery are difficult to determine.

Real estate capital markets have improved dramatically. Public REITs in the U.S. raised $25 billion of equity in 2009, and the REIT Index more than doubled from its low in March 2009. Public real estate debt (CMBS and REIT unsecured) yields tightened meaningfully. Private real estate markets have recently started showing signs of improvement, and private debt capital has begun to return to the market.

Commodity prices materially increased in 2009. Oil prices, for example, rose nearly 80%. The U.S. dollar weakened, pressured by historically low interest rates coupled with heavy borrowing. The U.S. dollar fell against each of the Euro and Pound Sterling by 2% and 10%, respectively. Global monetary policy has remained very accommodative throughout the economic downturn, and there are some initial signs of foreign governments tightening, although the outlook for monetary policy is uncertain.

The extent of the current economic improvement is unknown. Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Western Europe, Asia and, to a lesser extent, elsewhere in the world.

## SEGMENT REVIEW

### Private Equity

***Full Year.*** Private Equity had full year revenues of $775.2 million, compared with revenues of a negative $(286.2) million for the full year 2008. The principal driver of the year-over-year change was an increase in Performance Fees and Allocations and Investment Income as a result of net appreciation in the fair value of both publicly traded and privately held portfolio investments. The combined impact of improved performance of the underlying portfolio companies and more favorable global public markets drove the improved results. During the year, two-thirds of the portfolio companies in private equity experienced Earnings Before Interest, Taxes, Depreciation and

Amortization ("EBITDA") growth and 40% had revenue growth. The net internal rate of return ("IRR") for the segment was 9% for 2009. At December 31, 2009, the unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of our contributed Private Equity funds represented 1.3 times investors' original investments.

Results were also positively impacted by increased transaction activity, particularly in the second half of the year, including several material realizations such as Stiefel Laboratories, Inc. and Orangina Schweppes, SAS, as well as new investments in SeaWorld Parks & Entertainment and the Pinnacle Food Group's acquisition of Bird's Eye Foods Inc. The funds distributed to limited partners realized proceeds of $1.6 billion for 2009, which represented 1.8 times investors' original investment in the companies that were sold. In addition, Blackstone invested Limited Partner Capital of $1.5 billion and had $1.3 billion of Limited Partner Capital committed to deals by the segment's funds that had not yet closed as of December 31, 2009. This compared to distributed proceeds of $0.5 billion and invested capital of $3.8 billion in 2008.

Net Fee Related Earnings from Operations were $97.8 million for the full year 2009, up from $81.9 million for the full year 2008. The change from 2008 primarily reflected an increase in transaction fees. Economic Net Income was $490.4 million for the full year 2009, up from a negative $(392.5) million for the full year 2008.

Compensation and Benefits expense increased to $202.3 million from $16.2 million for the full year 2008. The change from 2008 was primarily due to an increase in performance fee related compensation, although Base Compensation levels also increased. Other Operating Expenses of $82.5 million were down from $90.1 million for the full year 2008, reflecting Blackstone's ongoing focus on expense control.

Fee-Earning Assets Under Management were down slightly at $24.5 billion compared with $25.5 billion for 2008 reflecting the impact of market depreciation on certain assets on which fees are no longer charged and several realizations.

***Fourth Quarter.*** Private Equity had revenues of $281.6 million for the fourth quarter of 2009, compared with revenues of a negative $(193.6) million for the fourth quarter of 2008. The change from 2008 was driven principally by an increase in Performance Fees and Allocations and Investment Income which included $62.4 million in realized performance fees and investment income. The net return for the segment was 6% in the fourth quarter of 2009 versus a negative (19)% in the fourth quarter of 2008.

Net Fee Related Earnings from Operations were $32.9 million for the fourth quarter of 2009, up from $31.6 million for the fourth quarter of 2008. The change from 2008 primarily reflected an increase in fee related revenues as a result of increased transaction activity. Economic Net Income was $177.8 million for the fourth quarter of 2009, up from a negative $(239.1) million for the fourth quarter of 2008.

Compensation and Benefits expense increased to $83.3 million from $22.5 million for the fourth quarter of 2008. The change from 2008 was primarily due to an increase in Performance Fee Related Compensation and Base Compensation. Other Operating Expenses of $20.5 million were down from $23.1 million for the fourth quarter of 2008, reflecting Blackstone's ongoing focus on expense control.

Fee-Earning Assets Under Management were down slightly at $24.5 billion compared with $25.5 billion for the fourth quarter of 2008.

Limited Partner Capital Invested totaled $898.5 million for the fourth quarter of 2009, including new and follow-on investments, a decrease from $1.1 billion invested for the fourth quarter of 2008.

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

The following table presents the internal rates of return of our significant Private Equity funds:

| | Net Total Changes in Carrying Value (Realized and Unrealized)[(a)] | | | | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | Inception to Date | |
| Fund | 2009 | 2008 | 2007 | Total | Realized[(b)] |
| BCP IV | 35% | –17% | 21% | 40% | 72% |
| BCP V | 1% | –35% | –1% | –12% | 21% |

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and carried interest allocations.

(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

The Private Equity funds' net internal rates of return for the year ended December 31, 2009 were positive for BCP IV and BCP V compared to the negative returns for each of these funds for the previous year. Generally, the fund's portfolio companies saw increasing stabilization over the course of 2009 in their revenues and improvement in margins and EBITDA, an important valuation metric in Private Equity. The funds accepted offers for the sale of some portfolio companies at attractive prices from strategic buyers, resulting in an increase in the valuations of those portfolio companies.

The following table presents the investment record of the Private Equity funds from inception through December 31, 2009 for funds with closed investment periods:

| | Fully Invested Funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Investments | | | | Realized/Partially Realized Investments[a] | | | |
| | Total | | | | Total | | | |
| **Fund (Investment Period)** (Dollars in Millions) | **Invested Capital** | **Carrying Value[b]** | **Net IRR[c]** | **MOIC[d]** | **Invested Capital** | **Carrying Value[b][e]** | **Net IRR[c]** | **MOIC[d]** |
| BCP I (Oct 1987/Oct 1993) | $ 679 | $ 1,742 | 19% | 2.6 | $ 679 | $ 1,742 | 19% | 2.6 |
| BCP II (Oct 1993/Aug 1997) | 1,292 | 3,245 | 32% | 2.5 | 1,201 | 3,123 | 37% | 2.6 |
| BCP III (Aug 1997/Nov 2002) | 4,026 | 7,722 | 12% | 1.9 | 3,402 | 6,939 | 18% | 2.0 |
| BCOM (Jun 2000/Jun 2006) | 2,132 | 2,904 | 8% | 1.4 | 1,004 | 2,139 | 25% | 2.1 |
| BCP IV (Nov 2002/Dec 2005) | 7,088 | 16,834 | 40% | 2.4 | 3,765 | 12,444 | 72% | 3.3 |

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

(b) Carrying value includes realized proceeds and unrealized fair value.

(c) The internal rate of return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(d) Multiple of Invested Capital ("MOIC") represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

(e) The Realized/Partially Realized Carrying Value includes remaining unrealized value of $1.2 billion.

The following table presents the investment record of the Private Equity funds from inception through December 31, 2009 for funds with open investment periods:

| | | Funds in the Investment Period | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total Investments | | | | Realized / Partially Realized Investments[a] | | | |
| | | Total | | | | Total | | | |
| **Fund (Investment Period)** (Dollars in Millions) | **Available Capital[b]** | **Invested Capital** | **Carrying Value[c]** | **Net IRR[d]** | **MOIC[e]** | **Invested Capital** | **Carrying Value[c][f]** | **Net IRR[d]** | **MOIC[e]** |
| BCPV (Dec 2005/Dec 2011) | $4,550 | $16,769 | $13,529 | –12% | 0.8 | $1,504 | $2,385 | 21% | 1.6 |

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.) are a material portion of invested capital.

(b) Available Capital represents total capital commitments less invested capital and includes $1.4 billion committed to deals but not yet invested. Additionally, the segment has $1.0 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.

(c) Carrying value includes realized proceeds and unrealized fair value.

(d) The internal rate of return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(e) Multiple of Invested Capital ("MOIC") represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

(f) The Realized/Partially Realized Carrying Value includes remaining unrealized value of $1.0 billion.

**Real Estate**

***Full Year.*** Real Estate had revenues of a negative $(13.6) million, compared with revenues of a negative $(718.0) million for the full year 2008. The principal drivers of the year-over-year change was a reduction in the reversal of performance fees and a stabilization in the fair value of the segment's underlying portfolio investments in the office and hospitality sectors during the second half of 2009. The performance fees accrued in previous years have now been fully reversed in the two largest funds, BREP V and BREP VI. The second half of 2009 saw portfolio values stabilize and a return of deal activity at cyclically attractive levels. Real Estate invested $884.2 million for the full year 2009 with another $256.6 million committed but not yet invested, or under letter of intent, as of December 31, 2009. The net IRR for our Real Estate carry funds was a negative (35)% for 2009 compared to a negative (38)% in 2008, while the Real Estate debt investment hedge funds was 21% for 2009 compared to a negative (9)% in 2008. Despite significant unrealized markdowns over the last year and a half, the December 31, 2009 unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of our contributed Real Estate carry funds represented 0.9 times investors' original investments.

Net Fee Related Earnings from Operations were $135.2 million in the full year 2009, up from $119.6 million for the full year 2008 due to the full-year impact of the European fund launched in 2008. Economic Net Income was negative $(117.5) million for the full year 2009, an improvement from negative $(850.6) million for the full year 2008.

Compensation and Benefits were $47.6 million compared to $76.8 million for the full year 2008. Other Operating Expenses of $56.3 million for the full year 2009 remained relatively unchanged from the full year 2008.

Fee-Earning Assets Under Management were up $737.6 million, or 3%, to $23.7 billion compared with $23.0 billion for 2008.

***Fourth Quarter.*** Real Estate had revenues of $117.7 million for the fourth quarter of 2009, compared with negative revenues of $(477.8) million for the fourth quarter of 2008. The change from 2008 was primarily due to an improvement in Performance Fees and Allocations and Investment Income, driven by the stabilization in the fair value of the segment's underlying portfolio investments in the office and hospitality sectors during the second half of 2009 compared to the fourth quarter of 2008. The net return for our Real Estate carry funds was a negative (0.5)% for the fourth quarter of 2009 compared to a negative (29)% in the fourth quarter of 2008, while the Real Estate debt investment hedge funds was 4% for the fourth quarter of 2009 compared to negative (9)% in the fourth quarter of 2008.

Net Fee Related Earnings from Operations were $38.4 million in the fourth quarter of 2009, down from $43.8 million for the fourth quarter of 2008. Economic Net Income was $51.2 million for the fourth quarter of 2009 compared to a negative $(478.0) million for the fourth quarter of 2008.

Compensation and Benefits were $49.3 million compared to a negative $(12.1) million for the fourth quarter of 2008. The change from 2008 was due to a decrease in reversals of prior period carried interest allocations in the fourth quarter of 2009. Other Operating Expenses of $17.3 million increased from $12.2 million for the fourth quarter of 2008.

Fee-Earning Assets Under Management of $23.7 billion remained relatively unchanged from the third quarter of 2009 and were up 3% from the fourth quarter of 2008.

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

The following table presents the Internal Rates of Return of our significant Real Estate funds:

| Fund | Net Total Change in Carrying Value (Realized and Unrealized)[a] Year Ended December 31, 2009 | 2008 | 2007 | Inception to Date Total | Realized[b] |
|---|---|---|---|---|---|
| BREP IV | –32% | –39% | 8% | 14% | 69% |
| BREP V | –35% | –31% | 36% | –6% | 77% |
| BREP International | 10% | –36% | 57% | 28% | 36% |
| BREP International II | –31% | –42% | 19% | –27% | 5% |
| BREP VI | –40% | –43% | 44% | –33% | 95% |
| BSSF I[c] | 21% | –9% | N/A | 17% | N/M |
| BSSF II[c] | 23% | N/A | N/A | 23% | 140% |
| CMBS[c] | 17% | N/A | N/A | 17% | N/M |

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.

(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

(c) Represents returns for a partial year of investing which commenced for the CMBS fund in May 2009, BSSF II in July 2009, and BSSF in August 2008.

The Real Estate funds' net internal rates of return for the year ended December 31, 2009 were improved for all funds except BREP V compared to the negative returns for each of these funds for the year ended December 31, 2008. Generally, beginning in the second half of 2009, the fund's portfolio company operations have seen relative stabilization in the fundamentals of the BREP funds' hotels and improved leasing in the BREP funds' office investments, which therefore limited the valuation reductions of our investments.

The following table presents the investment record of the Real Estate funds from inception through December 31, 2009 for funds with closed investment periods:

| Fund (Investment Period) (Dollars in Millions) | Fully Invested Funds — Total Investments: Total Invested Capital | Total Carrying Value[b] | Net IRR[c] | MOIC[d] | Realized / Partially Realized Investments[a]: Total Invested Capital | Total Carrying Value[b][e] | Net IRR[c] | MOIC[d] |
|---|---|---|---|---|---|---|---|---|
| Pre-BREP | $ 141 | $ 345 | 33% | 2.5 | $ 141 | $ 345 | 33% | 2.5 |
| BREP I (Sep 1994/Oct 1996) | 467 | 1,328 | 40% | 2.8 | 467 | 1,328 | 40% | 2.8 |
| BREP II (Oct 1996/Mar 1999) | 1,219 | 2,525 | 19% | 2.1 | 1,219 | 2,525 | 19% | 2.1 |
| BREP III (Apr 1999/Apr 2003) | 1,415 | 3,330 | 21% | 2.4 | 1,338 | 3,300 | 23% | 2.5 |
| BREP Int'l (Jan 2001/Sep 2005) | 757 | 1,580 | 28% | 2.1 | 658 | 1,521 | 36% | 2.3 |
| BREP IV (Apr 2003/Dec 2005) | 2,737 | 3,575 | 14% | 1.3 | 1,058 | 2,501 | 69% | 2.4 |
| BREP V (Dec 2005/Feb 2007) | 5,183 | 4,750 | –6% | 0.9 | 951 | 1,748 | 77% | 1.8 |
| BREP Int'l II (Sep 2005/Jun 2008) | 1,739 | 972 | –27% | 0.6 | 208 | 256 | 5% | 1.2 |

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (rent, dividends, interest, etc.), are a material portion of invested capital.

(b) Carrying value includes realized proceeds and unrealized fair value.

(c) The internal rate of return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(d) Multiple of Invested Capital ("MOIC") represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

(e) The Total Realized/Partially Realized Carrying Value includes remaining unrealized value of $692.2 million.

The following table presents the investment record of the Real Estate funds from inception through December 31, 2009 for funds with open investment periods:

| Fund (Investment Period) (Dollars in Millions) | Funds in the Investment Period Available Capital[(a)] | Total Investment Total Invested Capital | Total Carrying Value[(b)] | Net IRR[(c)] | MOIC[(d)] |
|---|---|---|---|---|---|
| BREP VI (Feb 2007/Aug 2012) | $6,208 | $4,817 | $2,374 | –33% | 0.5 |
| BREP EU III (Jun 2008/Dec 2013) | 4,414 | 118 | 115 | N/M | 1.0 |
| BSSF II (July 2009/Aug 2017) | 147 | 358 | 401 | 23% | 1.1 |

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

(a) Available Capital represents total capital commitments less invested capital. It includes $276.0 million committed to deals but not yet invested. Additionally, the segment has $1.2 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.

(b) Carrying value includes realized proceeds and unrealized fair value.

(c) The internal rate of return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(d) Multiple of Invested Capital ("MOIC") represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

## CREDIT AND MARKETABLE ALTERNATIVES (CAMA)

***Full Year.*** CAMA had revenues of $632.3 million for the full year 2009 compared with revenues of $151.5 million for the full year 2008. The increase was primarily driven by improved returns on Blackstone's investment in its funds of hedge funds and its credit-oriented funds during the full year 2009 compared to the full year 2008 and by an increase in Performance Fees and Allocations in both businesses.

The funds of hedge funds posted a composite net return of 16% for the full year 2009 and approximately 40% of the assets eligible to earn incentive fees were above their applicable high water marks as of December 31, 2009. The credit-oriented hedge funds posted a composite net return of 23% for 2009, a record year, and approximately three fourths of the assets eligible to earn incentive fees were above their applicable high water marks as of December 31, 2009. CAMA's credit-oriented draw-down funds posted a composite net return of 61% for 2009.

Net Fee Related Earnings from Operations were $99.6 million for the full year 2009, a decrease from $130.9 million for the full year 2008 which reflected lower asset values and the spinout of the single manager hedge funds at the end of 2008. Economic Net Income was $265.2 million for the full year 2009 compared to a negative $(195.5) million for the full year 2008.

Compensation and Benefits were $286.5 million, up from $241.0 million for the full year 2008. The increase from the full year 2008 was principally driven by performance fee related compensation due to positive returns on certain of Blackstone's credit-related funds, partially offset by a decline in base compensation. Other Operating Expenses of $80.7 million were down from $106.0 million for the full year 2008, reflecting Blackstone's ongoing focus on expense control.

Fee-Earning Assets Under Management in 2009 totaled $47.9 billion compared with $42.6 billion for 2008. The increase from 2008 was principally due to market appreciation in the funds of hedge funds, credit platform and closed-end mutual funds in addition to net inflows across the segment, offset by the decrease from discontinued funds.

Limited Partner Capital Invested in certain credit drawdown funds totaled $721.4 million for the full year 2009, down from $1.8 billion for the full year 2008.

***Fourth Quarter.*** CAMA had revenues of $213.3 million, compared with a negative $(55.7) million for the fourth quarter of 2008. The change from 2008 was due primarily to improved returns on the segment's fund of hedge funds and credit-oriented funds, resulting in positive performance fees and allocations and investment income in both businesses.

Net Fee Related Earnings from Operations were $36.0 million for the fourth quarter of 2009, an increase from $21.7 million for the fourth quarter of 2008 reflecting general expense reductions. Economic Net Income was $102.8 million for the fourth quarter of 2009 compared to a negative $(132.5) million for the fourth quarter of 2008.

Compensation and Benefits were $88.1 million, up from $40.3 million in the fourth quarter of 2008. The increase from the fourth quarter of 2008 was principally driven by performance fee related compensation due to positive returns on certain of Blackstone's credit-related funds, partially offset by a decline in base compensation. Other Operating Expenses of $22.4 million were down from $36.5 million for the fourth quarter of 2008, reflecting Blackstone's ongoing focus on expense control.

Fee-Earning Assets Under Management in the fourth quarter of 2009 totaled $47.9 billion up from $42.6 billion for the fourth quarter of 2008. The increase from 2008 was principally due to market appreciation in the funds of hedge funds, credit platform funds and closed-end mutual funds.

Limited Partner Capital Invested in certain carry credit-oriented funds totaled $313.6 million for the fourth quarter of 2009, down from $333.8 million for the fourth quarter of 2008.

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

| | Average Annual Net Returns[(a)] | | | |
|---|---|---|---|---|
| | Periods Ended December 31, 2009 | | | |
| **Composite** | **One Year** | **Three Years** | **Five Year** | **Inception to Date** |
| Funds of Hedge Funds, Core Funds Composite | 16% | 2% | 5% | 10% |

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

(a) Composite returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.

**Financial Advisory**

***Full Year.*** Revenues were $397.6 million for the year ended December 31, 2009, a decrease of $13.0 million, or 3%, compared to $410.6 million for the year ended December 31, 2008. The restructuring and reorganization advisory services business generated record fees of $188.0 million, a 66% increase from 2008, as continued credit market turmoil and low levels of available liquidity led to increased debt defaults, debt restructurings and bankruptcies. Additionally, fees earned from the corporate and mergers and acquisitions advisory services business increased $10.1 million, or 7%, to a record $164.0 million as clients increasingly looked to us for independent advice in complicated transactions. These increases were offset by a decrease of $91.6 million in fees generated from the fund placement business compared to 2008 as that business continued to face challenges in the fund-raising environment but did see improvement in the fourth quarter.

Net Fee Related Earnings from Operations were $77.8 million for the full year 2009, a decrease from $95.2 million for the full year 2008. The primary catalyst for the decrease from 2008 was a decrease in fees generated from the fund placement business coupled with an increase in bad debt expense from the corporate and mergers and acquisitions advisory services business. Non-compensation expenses for the segment, excluding the impact of these one-time items, were essentially flat. Economic Net Income was $85.7 million for the full year 2009 compared to $108.5 million for the full year 2008.

***Fourth Quarter.*** Revenues were $125.7 million for the fourth quarter of 2009, an increase from $105.8 million for the fourth quarter of 2008. The increase in segment revenues was primarily driven by an increase in fees generated by continued strength in Blackstone's restructuring and reorganization advisory services business as well as a return to more normalized activity levels in the fund placement business.

Net Fee Related Earnings from Operations were $31.8 million for the fourth quarter of 2009, an increase from $20.8 million for the fourth quarter of 2008. The primary catalyst for the increase from 2008 was higher advisory fees, partially offset by an increase in Compensation and Benefits as a portion of compensation is directly related to the profitability of each of the advisory services businesses. Economic Net Income was $34.0 million for the fourth quarter of 2009 compared to $22.5 million for the fourth quarter of 2008.

## SEGMENT 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. Net Fee Related Earnings from Operations is a supplemental measure of after tax performance used to highlight earnings from operations excluding the income from and related profit sharing expenses of Blackstone's performance fees and allocations and investment income, except for interest income.

| | Private Equity | |
|---|---|---|
| | Year Ended December 31, | |
| (Dollars in Thousands) | 2009 | 2008 |
| Revenues | | |
| Management Fees | | |
| Base Management Fees | $270,509 | $ 268,961 |
| Advisory Fees | | |
| Transaction and Other Fees, Net* | 86,336 | 51,796 |
| Management Fee Offsets** | – | (4,862) |
| Total Management Fees | 356,845 | 315,895 |
| Performance Fees and Allocations | | |
| Realized | 34,021 | (749) |
| Unrealized | 303,491 | (429,736) |
| Total Performance Fees and Allocations | 337,512 | (430,485) |
| Investment Income (Loss) | | |
| Realized | 36,968 | 13,687 |
| Unrealized | 33,269 | (196,200) |
| Total Investment Income (Loss) | 70,237 | (182,513) |
| Interest Income and Dividend Revenue | 7,756 | 6,459 |
| Other | 2,845 | 4,474 |
| Total Revenues | 775,195 | (286,170) |
| Expenses | | |
| Compensation and Benefits | | |
| Base Compensation | 181,266 | 146,551 |
| Performance Fee Related | | |
| Realized | 741 | (4,255) |
| Unrealized | 20,307 | (126,090) |
| Total Compensation and Benefits | 202,314 | 16,206 |
| Other Operating Expenses | 82,471 | 90,130 |
| Total Segment Expenses | 284,785 | 106,336 |
| Economic Net Income (Loss) | $490,410 | $(392,506) |
| Net Fee Related Earnings from Operations | $ 97,826 | $ 81,928 |

* Transaction and Other Fees, Net, are net of amounts, if any, shared with limited partners including, for Private Equity, broken deal expenses.

** Primarily placement fees.

| Real Estate | | Credit and Marketable Alternatives | | Financial Advisory | | Economic Net Income Recap, Total Segments | |
|---|---|---|---|---|---|---|---|
| Year Ended December 31, | | Year Ended December 31, | | Year Ended December 31, | | Year Ended December 31, | |
| 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| $ 328,447 | $ 295,921 | $400,873 | $ 476,836 | | | $ 999,829 | $ 1,041,718 |
| | | | | $390,718 | $397,519 | 390,718 | 397,519 |
| 25,838 | 36,046 | 2,866 | 8,516 | – | – | 115,040 | 96,358 |
| (2,467) | (4,969) | (14,694) | (6,606) | – | – | (17,161) | (16,437) |
| 351,818 | 326,998 | 389,045 | 478,746 | 390,718 | 397,519 | 1,488,426 | 1,519,158 |
| (3,039) | 24,681 | 43,282 | 15,081 | – | – | 74,264 | 39,013 |
| (252,180) | (843,704) | 114,556 | (12,822) | – | – | 165,867 | (1,286,262) |
| (255,219) | (819,023) | 157,838 | 2,259 | – | – | 240,131 | (1,247,249) |
| 6,164 | 3,778 | (15,031) | (82,142) | 1,443 | – | 29,544 | (64,677) |
| (125,624) | (238,650) | 96,016 | (257,084) | 219 | – | 3,880 | (691,934) |
| (119,460) | (234,872) | 80,985 | (339,226) | 1,662 | – | 33,424 | (756,611) |
| 6,030 | 5,880 | 3,452 | 8,527 | 5,254 | 8,148 | 22,492 | 29,014 |
| 3,261 | 3,008 | 1,025 | 1,214 | (35) | 4,899 | 7,096 | 13,595 |
| (13,570) | (718,009) | 632,345 | 151,520 | 397,599 | 410,566 | 1,791,569 | (442,093) |
| 158,115 | 150,684 | 198,117 | 239,436 | 232,359 | 234,755 | 769,857 | 771,426 |
| 3,506 | 1,090 | 20,854 | 8,162 | – | – | 25,101 | 4,997 |
| (113,981) | (74,981) | 67,493 | (6,643) | – | – | (26,181) | (207,714) |
| 47,640 | 76,793 | 286,464 | 240,955 | 232,359 | 234,755 | 768,777 | 568,709 |
| 56,325 | 55,782 | 80,661 | 106,027 | 79,572 | 67,277 | 299,029 | 319,216 |
| 103,965 | 132,575 | 367,125 | 346,982 | 311,931 | 302,032 | 1,067,806 | 887,925 |
| $(117,535) | $(850,584) | $265,220 | $(195,462) | $ 85,668 | $108,534 | $ 723,763 | $(1,330,018) |
| $ 135,187 | $ 119,621 | $ 99,646 | $ 130,941 | $ 77,751 | $ 95,178 | $ 410,410 | $ 427,668 |

### RECONCILIATION OF ADJUSTED CASH FLOW FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

The following table provides a reconciliation of Blackstone's Adjusted Cash Flow from Operations to Blackstone's Net Cash Provided by 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) | 2009 | 2008 |
| Net Cash Provided by Operating Activities | $ 411,509 | $ 1,890,435 |
| Unrealized Depreciation on Hedge Activities | 6,975 | – |
| Changes in Operating Assets and Liabilities | (70,200) | (757,084) |
| Short Term Investment Activity | 553,288 | – |
| Blackstone Funds Related | | |
| Investment Activities | (446,233) | (469,693) |
| Net Realized Gains (Losses) on Investments | (135,243) | (164,726) |
| Non-Controlling Interests in Income of | | |
| Consolidated Entities | 1,942,838 | 3,523,697 |
| Realized Gains (Losses) – Blackstone Funds | 13,227 | (197,426) |
| Cash Flows from Operations – Adjustments | | |
| Interests Held by Blackstone Holdings | | |
| Limited Partners[a] | (1,792,173) | (3,638,799) |
| Incremental Cash Tax Effect[b] | 42,250 | (57,603) |
| Adjusted Cash Flow from Operations | $ 526,238 | $ 128,801 |

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

| | Year Ended December 31, | |
|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 |
| Fee Related Earnings | | |
| Total Management and Advisory Fees[c] | $1,530,382 | $1,561,766 |
| Total Expenses[d] | 1,119,972 | 1,134,098 |
| Net Fee Related Earnings from Operations | 410,410 | 427,668 |
| Performance Fees and Allocations | | |
| Net of Related Compensation[e] | 32,092 | 33,210 |
| Blackstone Investment Income[f] | | |
| Liquid | 58,362 | (327,453) |
| Illiquid | 25,374 | (4,624) |
| | 83,736 | (332,077) |
| Adjusted Cash Flow from Operations | $ 526,238 | $ 128,801 |

(a) 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.

(b) Represents the provisions for and/or adjustments to income taxes that were calculated using a similar methodology applied in calculating such amounts for the period after the reorganization.

(c) Comprised of total segment Management and Advisory Fees plus interest income.

(d) Comprised of total 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 (e) below), other operating expenses and Blackstone's estimate of taxes payable.

(e) Represents realized Performance Fees and Allocations net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto. The negative amounts for the quarter and year ended December 31, 2009 are the result of timing differences between the tax payment due date on certain taxable Performance Fees and Allocations and the cash receipt date of such Performance Fees and Allocations.

(f) Comprised of Blackstone's investment income (realized and unrealized) on its liquid investments from its Credit and Marketable Alternatives segment, as well as its net realized investment income on its illiquid investments, principally from its 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, 2009 and 2008, 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, 2009. We also have audited Blackstone's internal control over financial reporting as of December 31, 2009, 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, 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 26, 2010

## CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL CONDITION

| (Dollars in Thousands, Except Unit Data) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Cash and Cash Equivalents | $ 952,096 | $ 503,737 |
| Cash Held by Blackstone Funds and Other | 86,084 | 907,324 |
| Investments | 3,565,483 | 2,830,942 |
| Accounts Receivable | 306,307 | 312,067 |
| Due from Affiliates | 759,907 | 1,088,304 |
| Intangible Assets, Net | 919,477 | 1,077,526 |
| Goodwill | 1,703,602 | 1,703,602 |
| Other Assets | 172,556 | 219,977 |
| Deferred Tax Assets | 943,512 | 845,578 |
| **Total Assets** | $9,409,024 | $ 9,489,057 |
| **Liabilities and Partners' Capital** | | |
| Loans Payable | $ 657,623 | $ 387,000 |
| Due to Affiliates | 1,410,066 | 1,285,577 |
| Accrued Compensation and Benefits | 488,945 | 413,459 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 308,857 | 1,284,576 |
| **Total Liabilities** | 2,865,491 | 3,370,612 |
| **Commitments and Contingencies** | | |
| **Redeemable Non-Controlling Interests in Consolidated Entities** | 526,311 | 362,462 |
| **Partners' Capital** | | |
| Partners' Capital (common units: 319,939,772 issued and outstanding as of December 31, 2009; 273,891,358 issued and 272,998,484 outstanding as of December 31, 2008) | 3,376,707 | 3,509,448 |
| Accumulated Other Comprehensive Income (Loss) | 2,420 | (291) |
| Non-Controlling Interests in Consolidated Entities | 540,283 | 425,067 |
| Non-Controlling Interests in Blackstone Holdings | 2,097,812 | 1,821,759 |
| **Total Partners' Capital** | 6,017,222 | 5,755,983 |
| **Total Liabilities and Partners' Capital** | $9,409,024 | $ 9,489,057 |

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, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Revenues** | | | |
| Management and Advisory Fees | $ 1,482,226 | $ 1,476,357 | $ 1,566,047 |
| Performance Fees and Allocations | | | |
| Realized | 70,492 | 38,941 | 1,024,566 |
| Unrealized | 150,598 | (1,286,261) | 102,074 |
| Total Performance Fees and Allocations | 221,090 | (1,247,320) | 1,126,640 |
| Investment Income (Loss) | | | |
| Realized | 44,320 | (16,425) | 223,147 |
| Unrealized | (3,716) | (606,452) | 110,615 |
| Total Investment Income (Loss) | 40,604 | (622,877) | 333,762 |
| Interest and Dividend Revenue | 22,680 | 30,879 | 23,174 |
| Other | 7,099 | 13,600 | 525 |
| **Total Revenues** | 1,773,699 | (349,361) | 3,050,148 |
| **Expenses** | | | |
| Compensation and Benefits | | | |
| Base Compensation | 3,778,686 | 4,062,238 | 2,227,310 |
| Performance Fee Related | | | |
| Realized | 25,102 | 4,997 | 91,203 |
| Unrealized | (26,182) | (207,448) | (61,866) |
| Total Compensation and Benefits | 3,777,606 | 3,859,787 | 2,256,647 |
| General, Administrative and Other | 443,573 | 440,776 | 324,200 |
| Interest Expense | 13,384 | 23,008 | 32,080 |
| Fund Expenses | 7,296 | 63,031 | 151,917 |
| **Total Expenses** | 4,241,859 | 4,386,602 | 2,764,844 |
| **Other Income (Loss)** | | | |
| Net Gains (Losses) from Fund Investment Activities | 176,694 | (872,336) | 5,423,132 |
| **Income (Loss) Before Provision (Benefit) for Taxes** | (2,291,466) | (5,608,299) | 5,708,436 |
| **Provision (Benefit) for Taxes** | 99,230 | (14,145) | 47,693 |
| **Net Income (Loss)** | (2,390,696) | (5,594,154) | 5,660,743 |
| **Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities** | 131,097 | (632,495) | 628,354 |
| **Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities** | (14,328) | (159,828) | 4,510,881 |
| **Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings** | (1,792,174) | (3,638,799) | 857,022 |
| **Net Income (Loss) Attributable to The Blackstone Group L.P.** | $ (715,291) | $(1,163,032) | $ (335,514) |
| **Net Loss Attributable to The Blackstone Group L.P.** | | | |
| **Per Common Unit – Basic and Diluted** | | | |
| Common Units Entitled to Priority Distributions | $ (2.46) | $ (4.32) | $ (1.28) |
| Common Units Not Entitled to Priority Distributions | $ (3.71) | $ (3.06) | N/A |
| **Weighted-Average Common Units Outstanding – Basic and Diluted** | | | |
| Common Units Entitled to Priority Distributions | 285,163,954 | 266,876,031 | 262,810,720 |
| Common Units Not Entitled to Priority Distributions | 3,826,233 | 1,501,373 | N/A |
| **Revenues Earned from Affiliates** | | | |
| Management and Advisory Fees | $ 134,284 | $ 188,276 | $ 594,967 |

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) | Non-Controlling Interests in Consolidated Entities | Non-Controlling Interests in Blackstone Holdings | Total Partners' Capital | Redeemable Non-Controlling Interests in Consolidated Entities | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2006** | – | $ – | $10,274 | $ 22,734,450 | $ 2,712,604 | $ 25,457,328 | $ 6,060,444 | $ 8,126,628 |
| Net Income | – | – | – | 4,533,944 | 1,958,751 | 6,492,695 | 644,103 | $ 7,136,798 |
| Currency Translation Adjustment | – | – | (191) | 13,635 | – | 13,444 | – | 13,444 |
| Net Unrealized Loss on Cash Flow Hedges | – | – | (6,930) | – | – | (6,930) | – | (6,930) |
| Capital Contributions | – | – | – | 5,740,798 | 233,659 | 5,974,457 | 1,419,261 | – |
| Capital Distributions | – | – | – | (5,209,141) | (2,492,352) | (7,701,493) | (429,311) | – |
| Relinquished in Deconsolidation of Partnership | – | – | – | (26,782,715) | – | (26,782,715) | – | – |
| Elimination of Non-Contributed Entities | – | – | (2,803) | – | (161,103) | (163,906) | – | – |
| Transfer of Non-Controlling Interests in Consolidated Entities | – | 35,276 | – | (506,186) | (35,276) | (506,186) | (139,241) | – |
| **Balance at June 18, 2007** | – | 35,276 | 350 | 524,785 | 2,216,283 | 2,776,694 | 7,555,256 | 7,143,312 |
| **Balance at June 19, 2007** | – | 35,276 | 350 | 524,785 | 2,216,283 | 2,776,694 | 7,555,256 | 7,143,312 |
| Net Loss | – | (335,514) | – | (23,063) | (1,101,729) | (1,460,306) | (15,749) | (1,476,055) |
| Currency Translation Adjustment | – | – | (5) | 551 | – | 546 | – | 546 |
| Capital Contributions | – | – | – | 128,361 | – | 128,361 | 223,336 | – |
| Capital Distributions | – | (78,794) | – | (96,455) | (49,906) | (225,155) | 91,133 | – |
| Relinquished in Deconsolidation of Partnership | – | – | – | – | – | – | (5,415,730) | – |
| Elimination of Non-Contributed Entities | – | – | – | 140,167 | – | 140,167 | – | – |
| Transfer of Non-Controlling Interests in Consolidated Entities | – | 1,174,367 | – | (158,460) | (1,549,865) | (533,958) | 20 | – |
| 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 Certain Non-Controlling Interest Holders | – | (4,570,756) | – | – | – | (4,570,756) | – | – |
| Purchase Price due to the Reorganization of the Partnership | – | – | – | – | 2,255,803 | 2,255,803 | – | – |
| Deferred Tax Effects Resulting from Acquisition of Ownership Interests | – | 111,876 | – | – | – | 111,876 | – | – |
| Equity-based Compensation | – | 404,850 | – | – | 1,332,702 | 1,737,552 | – | – |
| Net Delivery of Vested 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 | $ 515,886 | $ 3,103,288 | $ 7,846,019 | $ 2,438,266 | $ 5,667,803 |

See notes to consolidated and combined financial statements.

continued

## CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

| (Dollars in Thousands, Except Unit Data) | Common Units | Partners' Capital | Accumulated Other Compre-hensive Income (Loss) | Non-Controlling Interests in Consolidated Entities | Non-Controlling Interests in Blackstone Holdings | Total Partners' Capital | Redeemable Non-Controlling Interests in Consolidated Entities | Compre-hensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2007** | 259,826,700 | $ 4,226,500 | $ 345 | $ 515,886 | $ 3,103,288 | $ 7,846,019 | $2,438,266 | $ 5,667,803 |
| Net Loss | – | (1,163,032) | – | (159,828) | (3,638,799) | (4,961,659) | (632,495) | $(5,594,153) |
| Currency Translation Adjustment | – | – | (636) | (532) | – | (1,168) | – | (1,168) |
| Capital Contributions | – | – | – | 76,884 | | 76,884 | 317,884 | – |
| Capital Distributions | – | (319,897) | – | (128,217) | (410,104) | (858,218) | (749,233) | – |
| Relinquished in Deconsolidation of Partnership | – | – | – | – | – | – | (612,088) | – |
| Issuance of Blackstone Holdings Partnership Units for GSO Acquisition | – | 14,307 | – | – | 266,092 | 280,399 | – | – |
| Purchase of Interests from Certain Non-Controlling Interest Holders | – | (74,278) | – | – | (19,511) | (93,789) | – | – |
| Deferred Tax Effects Resulting from Acquisition of Ownership Interests | – | 5,164 | – | – | – | 5,164 | – | – |
| Equity-based Compensation | – | 818,076 | – | – | 2,473,236 | 3,291,312 | – | – |
| Net Delivery of Vested Common Units | 4,601,493 | (26,525) | – | – | – | (26,525) | – | – |
| Repurchase of Common Units | (902,874) | (5,338) | – | – | – | (5,338) | – | – |
| Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units | 9,473,165 | 34,471 | – | – | (34,471) | – | – | – |
| Adjustment to Pre-IPO Reorganization Purchase Price | – | – | – | – | 82,028 | 82,028 | – | – |
| Consolidation of Partnership | – | – | – | – | – | – | 159,031 | – |
| Payable to Non-Controlling Interest Holders due to Consolidated Blackstone Funds in Liquidation | – | – | – | – | – | – | (649,091) | – |
| Acquisition of Consolidated Blackstone Funds | – | – | – | 120,874 | – | 120,874 | 90,188 | – |
| **Balance at December 31, 2008** | 272,998,484 | $ 3,509,448 | $(291) | $ 425,067 | $ 1,821,759 | $ 5,755,983 | $ 362,462 | $(5,595,321) |

See notes to consolidated and combined financial statements.

continued

## CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

| (Dollars in Thousands, Except Unit Data) | Common Units | Partners' Capital | Accumulated Other Compre-hensive Income (Loss) | Non-Controlling Interests in Consolidated Entities | Non-Controlling Interests in Blackstone Holdings | Total Partners' Capital | Redeemable Non-Controlling Interests in Consolidated Entities | Compre-hensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2008** | 272,998,484 | $3,509,448 | $ (291) | $425,067 | $ 1,821,759 | $ 5,755,983 | $362,462 | $(5,595,321) |
| Net Loss | – | (715,291) | – | (14,328) | (1,792,174) | (2,521,793) | 131,097 | $(2,390,696) |
| Currency Translation Adjustment | – | – | 2,711 | – | – | 2,711 | – | 2,711 |
| Capital Contributions | – | – | – | 61,862 | 549 | 62,411 | 138,255 | – |
| Capital Distributions | – | (260,629) | – | (34,806) | (1) | (295,436) | (63,349) | – |
| Transfer of Non-Controlling Interests in Consolidated Entities | – | – | – | 1,991 | (1,991) | – | – | – |
| Transfer Due to Reorganization | – | – | – | 100,497 | – | 100,496 | – | – |
| Purchase of Interests from Certain Non-Controlling Interest Holders | – | (10,020) | – | – | (13) | (10,033) | – | – |
| Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders | – | 21,447 | – | – | – | 21,447 | – | – |
| Equity-Based Compensation | – | 777,986 | – | – | 2,180,134 | 2,958,120 | – | – |
| Net Delivery of Vested Common Units | 3,117,774 | (28,974) | – | – | – | (28,974) | – | – |
| Repurchase of Common Units and Blackstone Holdings Partnership Units | (4,375,094) | (27,008) | – | – | (703) | (27,711) | – | – |
| Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units | 48,198,608 | 109,748 | – | – | (109,748) | – | – | – |
| Loss Attributable to Consolidated Blackstone Funds in Liquidation | – | – | – | – | – | – | (42,153) | – |
| **Balance at December 31, 2009** | 319,939,772 | $3,376,707 | $2,420 | $540,283 | $ 2,097,812 | $ 6,017,222 | $526,311 | $(2,387,985) |

See notes to consolidated and combined financial statements.

## CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | |
|---|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 | 2007 |
| **Operating Activities** | | | |
| Net Income (Loss) | $(2,390,696) | $ (5,594,154) | $ 5,660,743 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | | |
| Blackstone Funds Related: | | | |
| Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities | (267,433) | 907,425 | (2,537,918) |
| Net Realized (Gains) Losses on Investments | 135,243 | 164,726 | (3,800,137) |
| Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group | 15,978 | 624,061 | (13,630) |
| Unrealized Depreciation on Hedge Activities | (6,975) | – | – |
| Non-Cash Performance Fees and Allocations | (269,152) | 1,086,058 | (187,070) |
| Equity-Based Compensation Expense | 3,048,108 | 3,302,617 | 1,765,188 |
| Amortization of Intangibles | 158,048 | 153,237 | 117,607 |
| Other Non-Cash Amounts Included in Net Income | 25,243 | 19,688 | 11,221 |
| Cash Flows Due to Changes in Operating Assets and Liabilities: | | | |
| Cash Held by Blackstone Funds and Other | 821,240 | (743,628) | 643,410 |
| Cash Relinquished with Deconsolidation of Partnership | – | (1,092) | (884,480) |
| Accounts Receivable | 35,050 | 45,281 | 337,824 |
| Due from Affiliates | 385,941 | (412,184) | (969,055) |
| Other Assets | 91,397 | 732,192 | (468,700) |
| Accrued Compensation and Benefits | (14,502) | 157,528 | 95,059 |
| Accounts Payable, Accrued Expenses and Other Liabilities | (987,241) | 796,897 | 273,388 |
| Due to Affiliates | (261,685) | 182,090 | 805,687 |
| Investments Purchased | (1,196,636) | – | – |
| Cash Proceeds from Sale of Investments | 643,348 | – | – |
| Blackstone Funds Related: | | | |
| Investments Purchased | (421,974) | (30,242,498) | (33,655,862) |
| Cash Proceeds from Sale of Investments | 868,207 | 30,712,191 | 31,956,429 |
| Net Cash Provided by (Used in) Operating Activities | 411,509 | 1,890,435 | (850,296) |
| **Investing Activities** | | | |
| Purchase of Furniture, Equipment and Leasehold Improvements | (23,627) | (50,113) | (32,307) |
| Elimination of Cash for Non-Contributed Entities | – | – | (23,292) |
| Cash Paid for Acquisitions, Net of Cash Acquired | – | (336,571) | – |
| Changes in Restricted Cash | 4,801 | 5,004 | – |
| Net Cash Used in Investing Activities | (18,826) | (381,680) | (55,599) |
| **Financing Activities** | | | |
| Issuance of Common Units in Initial Public Offering | – | – | 7,501,240 |
| Distributions to Non-Controlling Interest Holders in Consolidated Entities | (92,531) | (2,124,621) | (5,731,806) |
| Contributions from Non-Controlling Interest Holders in Consolidated Entities | 205,558 | 520,494 | 7,132,074 |
| Contributions from Predecessor Owners | – | – | 583,773 |

See notes to consolidated and combined financial statements.

continued

## CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

| (Dollars in Thousands) | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Distributions to Predecessor Owners | $ – | $ – | $ (2,932,918) |
| Purchase of Interests from Certain Non-Controlling Interest Holders | (10,033) | (109,834) | (4,570,756) |
| Net Settlement of Vested Common Units and Repurchase of Common Units | (56,685) | (31,863) | (16,045) |
| Proceeds from Loans Payable | 593,989 | 1,172,236 | 5,254,787 |
| Repayment of Loans Payable | (323,993) | (980,162) | (5,497,113) |
| Distributions to Common Unitholders | (260,629) | (319,897) | (78,794) |
| Net Cash Provided by (Used in) Financing Activities | 55,676 | (1,873,647) | 1,644,442 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | – | – | 639 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 448,359 | (364,892) | 739,186 |
| Cash and Cash Equivalents, Beginning of Period | 503,737 | 868,629 | 129,443 |
| Cash and Cash Equivalents, End of Period | $ 952,096 | $ 503,737 | $ 868,629 |
| **Supplemental Disclosure of Cash Flows Information** | | | |
| Payments for Interest | $ 5,097 | $ 22,038 | $ 60,326 |
| Payments for Income Taxes | $ 52,035 | $ 46,880 | $ 75,899 |
| **Supplemental Disclosure of Non-Cash Financing Activities** | | | |
| Non-Cash Distributions to Non-Controlling Interest Holders | $ – | $ – | $ (22,169) |
| Non-Cash Distributions to Partners | $ – | $ – | $ 49,763 |
| 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 | $ 1,991 | $ – | $ 2,216,284 |
| Transfer Due to Reorganization | $ 100,497 | $ – | $ – |
| Distribution Payable to Predecessor Owners | $ – | $ – | $ 65,995 |
| Reduction of Due to Limited Partners Account to Fund Sidepocket Investment | $ 6,261 | $ – | $ – |
| Notes Issuance Costs | $ 4,761 | $ – | $ – |
| Settlement of Vested Common Units | $ 199,447 | $ 170,626 | $ – |
| Conversion of Blackstone Holdings Units to Common Units | $ 109,748 | $ 34,471 | $ – |
| Reorganization of the Partnership: | | | |
| Accounts Payable, Accrued Expenses and Other Liabilities | $ – | $ (82,028) | $ (2,255,804) |
| Non-Controlling Interests in Consolidated Entities | $ – | $ 82,028 | $ 2,255,804 |
| Exchange of Founders and Senior Managing Directors' Interests in Blackstone Holdings: | | | |
| Deferred Tax Asset | $ (142,982) | $ (34,427) | $ (745,837) |
| Due to Affiliates | $ 121,535 | $ 29,263 | $ 633,961 |
| Partners' Capital | $ 21,447 | $ 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

The Blackstone Group L.P., together with its subsidiaries, ("Blackstone" or the "Partnership") is a leading global manager of private capital and provider of financial advisory services. The alternative asset management businesses includes the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation ("CLO") vehicles, separately managed accounts and publicly traded closed-end mutual funds (collectively referred to as the "Blackstone Funds"). Blackstone also provides various financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services. Blackstone's business is organized into four segments: private equity; real estate; credit and marketable alternatives; and financial advisory.

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

The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P.; Blackstone Holdings II L.P.; Blackstone Holdings III L.P.; Blackstone Holdings IV L.P.; and Blackstone Holdings V L.P. (collectively, the "Holding Partnerships"). On June 18, 2007, in preparation for an initial public offering, the predecessor owners of the Blackstone business completed a reorganization (the "Reorganization") whereby, with certain limited exceptions, the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name were contributed ("Contributed Businesses") to these five holding partnerships either directly or indirectly via a sale to certain wholly-owned subsidiaries of the Partnership and then a contribution to the Holding Partnerships. The Partnership, through its wholly-owned subsidiaries, is the sole general partner in each of these Holding Partnerships. The reorganization was accounted for as an exchange of entities under common control for the component of interests 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.

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

On January 1, 2009, the number of Holding Partnerships was reduced from five to four through the transfer of assets and liabilities of Blackstone Holdings III L.P. 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. Blackstone Holdings refers to the five holding partnerships prior to the January 2009 reorganization and the four holding partnerships subsequent to the January 2009 reorganization.

Holders of the limited partner interests in the four Holding Partnerships may, up to four times each year, exchange their limited partnership interests ("Partnership Units") for Blackstone Common Units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone Common Unit. Until the Blackstone Common Units issued in such exchanges were sold to third parties, they were required to forego any priority distributions under the cash distribution policy as described in Note 13 "Net Loss Per Common Unit."

**Initial Public Offering**

On June 27, 2007, the Partnership completed an 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 owned by Beijing Wonderful Investments or its affiliates 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 (a) 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 (b) purchase additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

**Consolidation and Deconsolidation of Blackstone Funds**

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.

**Acquisitions**

On March 3, 2008, the Partnership acquired GSO Capital Partners LP and certain of its affiliates ("GSO"). GSO is an alternative asset manager specializing in the credit markets. GSO manages various multi-strategy credit hedge funds, mezzanine funds, senior debt funds, separately managed accounts and various CLO vehicles.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The accompanying consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated and combined financial statements prior to the Reorganization described in Note 1 include the entities engaged in the above businesses under the common ownership of the two founders of Blackstone, Stephen A. Schwarzman and Peter G. Peterson (the "Founders"), 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, together with the Founders, referred to as the "predecessor owners."

Subsequent to the Reorganization, the consolidated and combined financial statements include the accounts of the Partnership, its wholly-owned subsidiaries, the consolidated funds which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the Partnership has a controlling financial interest.

The December 31, 2008 Consolidated and Combined Statements of Financial Condition reflect a restatement to correct the classification of the portion of net gains (losses) from Blackstone Investment Funds attributable to departed participants in Blackstone's profit sharing plans. At December 31, 2008, cumulative distributions to such departed participants exceeded net gains attributable to them such that Blackstone had an accrued clawback due from the departed participants totaling $226.9 million. This amount was previously classified as Non-Controlling Interests but should properly be, and has been reclassified as, a component within Due from Affiliates. The immaterial restatement had no impact on the Consolidated and Combined Statement of Operations or the Consolidated and Combined Statement of Cash Flows.

All intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation as follows:

- During the year ended December 31, 2008, Blackstone elected to classify Management and Advisory Fees in a single line item and reclassify amounts relating to Performance Fees and Allocations from Management and Advisory Fees and into Performance Fees and Allocations to reflect the underlying nature of the fee arrangements. In the second quarter of 2009, Blackstone elected to disaggregate Investment Income and Other between Investment Income (Loss) and Interest Income and Other. Investment Income (Loss) represents the income (loss) from Blackstone's proprietary and equity method investments, and Interest Income and Other represents primarily interest and dividend income.

- In the fourth quarter of 2009, Blackstone elected to disaggregate Compensation and Benefits into Base Compensation and Performance Fee Related Compensation. Blackstone then disaggregated Investment Income (Loss), Performance Fees and Allocations, and Compensation and Benefits – Performance Fee Related into their realized and unrealized components. Blackstone also disaggregated Interest Income and Other between Interest and Dividend Revenue and Other. Interest and Dividend Revenue includes income earned in the form of interest and dividends and Other includes foreign currency exchange gains (losses) and other income. As of December 31, 2009, Blackstone elected to aggregate certain financial statement captions on the Consolidated and Combined Statements of Financial Condition into Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities as such individual items no longer meet the materiality thresholds for separate presentation. Accounts Payable, Accrued Expenses and Other Liabilities includes amounts due to non-controlling interest holders.

**Use of Estimates**

The preparation of the consolidated and combined financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated and combined financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated and combined financial statements are prudent and reasonable and that it has made all necessary adjustments (consisting of only normal recurring items) so that the consolidated and combined financial statements are presented fairly. Actual results could differ from those estimates and such differences could be material.

**Consolidation**

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

In addition, the Partnership consolidates all variable interest entities ("VIE") in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it absorbs the majority of the VIE's expected losses, receives the majority of the VIE's expected returns, or both.

GAAP requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity, and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the variability of the entity. Performance of that analysis requires the exercise of judgment. The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion based on certain reconsideration events. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the fund held either directly by the Partnership or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative expected losses and expected residual returns calculation is performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date and on the occurrence of reconsideration events, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Blackstone's other disclosures regarding VIEs are discussed in Note 9 "Variable Interest Entities".

**Business Combinations**
The Partnership accounts for acquisitions using the purchase method of accounting, under which 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.

**Revenue Recognition**
Revenues primarily consist of management and advisory fees, performance fees and allocations, investment income, interest and dividend revenue and other.

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

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

Transaction and other fees (including monitoring fees) are fees charged directly to funds and portfolio companies. The investment advisory agreements generally require that the investment advisor reduce the amount of management fees payable by the limited partners to the Partnership ("management fee reductions") by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

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

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Consolidated and Combined Statements of Financial Condition.

***Performance Fees and Allocations*** – Performance fees earned on the performance of Blackstone's hedge fund structures are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund investment advisory agreement. Accrued but unpaid performance fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated and Combined Statements of Financial Condition. Performance fees arising on Blackstone's onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated and Combined Statements of Financial Condition.

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

Investments in the Consolidated and Combined Statements of Financial Condition.

Carried interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Performance fees earned on hedge fund structures are realized at the end of each fund's measurement period.

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees and allocations, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the fund.

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

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

***Other Revenue*** – Other Revenue comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**Fair Value of Financial Instruments**

GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- Level I – Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities and listed derivatives. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III – Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, collateralized loan obligations, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

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

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties or certain funds of hedge funds. The valuation technique for each of these investments is described below:

***Private Equity Investments*** – The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Private equity investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

***Real Estate Investments*** – The fair values of real estate investments, are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ("cap rates") analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (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. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value.

***Funds of Hedge Funds*** – Blackstone Funds' direct investments in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. If the Partnership determines, based on its own due diligence and investment procedures, that NAV per share does not represent fair value, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

***Credit-Oriented Investments*** – The fair values of credit-oriented investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the AICPA Audit and Accounting Guide, Investment Companies, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Consolidated and Combined 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).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Consolidated and Combined Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt and equity securities, that otherwise would not have been carried at fair value with gains and losses recorded in net income to consistently account for principal investments held by the Partnership. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated and Combined Statements of Financial Condition. Debt and equity securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-oriented and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated and Combined Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue. Further disclosure on instruments for which the fair value option has been elected is presented in Note 7 "Fair Value Option" to the Consolidated and Combined Financial Statements.

Securities transactions are recorded on a trade date basis.

**Equity Method Investments**

Investments where the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income in the Consolidated and Combined Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated and Combined Statements of Financial Condition.

The Partnership evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value and its estimated fair value is recognized as impairment when the loss is deemed other than temporary.

**Cash and Cash Equivalents**

Cash and cash equivalents represents cash on hand, cash held in banks and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated and Combined Statements of Operations.

**Cash Held By Blackstone Funds and Other**

Cash held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

**Accounts Receivable**

Accounts Receivable includes management fees receivable from limited partners, receivables related to the redemption of Partnership interests from underlying funds in the fund of hedge funds business, placement and advisory fees receivables, and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated and Combined Statements of Operations.

**Intangibles and Goodwill**

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees and Carried Interest from its Carry Funds. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 5 to 20 years, reflecting the contractual lives of such funds. The Partnership does not hold any indefinite-lived intangible assets.

Goodwill comprises goodwill arising from the Reorganization of the Partnership in 2007 and the acquisition of GSO in 2008 (see Note 1 "Organization").

Intangibles and goodwill are reviewed for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred.

**Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Consolidated and Combined Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability ("fair value hedge"); (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"); (c) a hedge of a net investment in a foreign operation; or (d) a derivative instrument not designated as a hedging instrument ("free standing derivative"). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in the same caption in the Consolidated and Combined Statements of Operations as the hedged item. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings. For free standing derivative contracts, the Partnership presents changes in fair value in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership's evaluation of effectiveness of its hedged transaction. On a monthly basis, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

**Foreign Currency**

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other in the Consolidated and Combined Statements of Operations. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. denominated operations are recorded in Other Comprehensive Income.

**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.

**Non-Controlling Interests in Consolidated Entities**

Non-Controlling Interests in Consolidated Entities represent the component of Partner's Capital in consolidated entities held by third party investors. Such interests are adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-oriented funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated and Combined Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other in the Consolidated and Combined Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partner's Capital in the Consolidated and Combined

Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities. When funds are restructured, they are reflected as a cash distribution for cash flow purposes.

**Compensation and Benefits**

***Compensation and Benefits – Base Compensation*** – Base compensation and benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees, including senior managing directors, and (b) equity-based compensation associated with the grants of equity-based awards to employees, including senior managing directors.

***Equity-Based Compensation*** – Compensation cost relating to the issuance of share-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

***Compensation and Benefits – Performance Fee Related*** – Performance fee related compensation and benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Employees participating in such initiatives are allocated a portion of Carried Interest and performance fees allocated to the general partner under performance fee allocations (see "Revenue Recognition"). Such compensation expense is recognized in the same manner as Carried Interest and performance fee allocations and is subject to both positive and negative adjustments as a result of changes in underlying fund performance.

**Income Taxes**

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

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using 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 of the deferred tax assets will not be realized.

Blackstone analyzes its tax filing positions in all of the U.S. 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. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a reserve is established. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated and Combined Statements of Operations.

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 GAAP. Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

**Earnings Per Unit**

Blackstone calculates basic and diluted earnings per unit using the two class method, which requires an entity to include non-vested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in such calculation. Basic earnings per unit are calculated by dividing total undistributed loss by the weighted-average number of common units outstanding, including unvested equity awards. Diluted earnings per unit exclude the anti-dilutive effect of unvested deferred restricted common units and Blackstone Holdings Partnership Units.

**Recent Accounting Developments**

Effective January 1, 2009, the Partnership adopted accounting guidance issued by the Financial Accounting Standards Board ("FASB") on business combinations. The guidance requires the acquiring entity in a business combination, for which the acquisition date is on or after January 1, 2009, to recognize the full fair value of assets, liabilities, 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. The guidance 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. The Partnership did not enter into any business combination transactions during the year ended December 31, 2009.

Effective January 1, 2009, the Partnership adopted guidance on the accounting and financial statement presentation of non-controlling (minority) interests. The guidance requires reporting entities to present non-redeemable non-controlling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interest holders. As a result of adoption, (a) with respect to the Consolidated and Combined Statements of Financial Condition, the Redeemable Non-Controlling Interests in Consolidated Entities was renamed as such and remained classified as mezzanine equity, and the non-redeemable Non-Controlling Interests in Consolidated Entities and Non-Controlling Interests in Blackstone Holdings have been reclassified as components of Partners' Capital, (b) with respect to the Consolidated and Combined Statements of Operations, Net Income (Loss) is now presented before non-controlling interests, the Net Income (Loss) attributable to the three categories of non-controlling interests discussed in (a) above are now presented separately, and the Consolidated and Combined Statements of Operations now net to Net Income (Loss) Attributable to The Blackstone Group L.P., and (c) with respect to the Consolidated and Combined Statements of Changes in Partners' Capital, roll forward columns have now been added for each component of non-controlling interests discussed in (a) above. The presentation and disclosure requirements have been applied retrospectively for all periods presented in accordance with the issued guidance. The guidance also clarifies the scope of accounting and reporting for decreases in ownership of a subsidiary to include groups of assets that constitute a business. The scope clarification did not have a material impact on the Partnership's financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the Emerging Issues Task Force ("EITF") on the application of the two-class share method of earnings per share as applied to master limited partnerships. The guidance applies to master limited partnerships that make incentive equity distributions. The Partnership has applied the guidance on a retrospective basis and has presented earnings per unit based on the two-class share method for all periods presented. The adoption did not have a material impact on the Partnership's financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. The purpose of the guidance is to improve financial reporting of derivative instruments and hedging activities. The guidance requires 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. The adoption resulted in additional required disclosures relating to derivative instruments as presented in Note 6 "Derivative Financial Instruments" of the Partnership's financial statements.

Effective January 1, 2009, the Partnership adopted guidance on the determination of the useful life of intangible assets. The guidance amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. The new guidance applies prospectively to (a) intangible assets that are acquired individually or with a group of other assets and (b) both intangible assets acquired in business combinations and asset acquisitions. The adoption of the guidance did not have a material impact on the Partnership's financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the FASB on determining whether instruments granted in share-based payment transactions are participating securities. The guidance 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 of calculation. The guidance requires entities to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. As a result of adoption, the Partnership includes unvested participating Blackstone Common Units as a component of Common Units Entitled to Priority Distributions–Basic in the calculation of earnings per common unit for all periods presented, due to their equivalent distribution rights as Blackstone Common Units. The impact of the adoption and retroactive application on 2008 and 2007 was as follows:

| | Year Ended December 31, 2008 | | June 19, 2007 through December 31, 2007 | |
|---|---|---|---|---|
| | Originally Reported | Upon Adoption | Originally Reported | Upon Adoption |
| **Net Loss Per Common Unit – Basic and Diluted** | | | | |
| Common Units Entitled to Priority Distributions | $(4.36) | $(4.32) | $(1.29) | $(1.28) |
| Common Units Not Entitled to Priority Distributions | $(3.09) | $(3.06) | N/A | N/A |

During 2009, the Partnership adopted guidance issued by the FASB on determining fair value when the volume and level of activity for the asset or liability has significantly decreased and identifying transactions that are not orderly. Adoption did not have a material impact on the Partnership's financial statements.

During 2009, the Partnership adopted guidance on interim disclosures about fair value of financial instruments. Such disclosures were previously required only in annual financial statements. The adoption of the guidance resulted in the inclusion of interim financial statement disclosures which had previously been annual.

During 2009, the Partnership adopted guidance on subsequent events. The guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption resulted in additional disclosure regarding subsequent events as presented in Note 20 "Subsequent Events" of the Partnership's financial statements.

During 2009, the Partnership adopted guidance issued by the FASB on the Accounting Standards Codification and the hierarchy of generally accepted accounting principles which established the FASB Standards Accounting Codification ("Codification") as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities, and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification supersedes all the existing non-SEC accounting and reporting standards and subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance also replaces the prior guidance regarding the GAAP hierarchy, given that once in effect, the guidance within the Codification will carry the same level of authority. As the guidance is limited to disclosures in the consolidated financial statements and the manner in which the Partnership refers to GAAP authoritative literature, adoption did not have a material impact on the Partnership's financial statements.

During 2009, the Partnership adopted guidance issued by the FASB on the measurement of the fair value of liabilities. The guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, fair value must be measured using valuation techniques that use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or alternative valuation techniques including an income approach or a market approach. In addition, guidance is provided on the classification of liabilities measured at fair value within the fair value hierarchy. Where the fair value of a liability is based on a quoted price in an active market for the identical liability or on the quoted price for an identical liability when traded as an asset in an active market without adjustment to the quoted price, the fair value measurement shall be classified as Level I. The adoption did not have a material impact on the Partnership's financial statements.

During 2009, the Partnership adopted implementation guidance issued by the FASB on accounting for uncertainty in income taxes. The updated guidance considers an entity's assertion that it is a tax-exempt not for profit or a pass through entity as a tax position that requires evaluation. In addition, the guidance provided implementation guidance on the attribution of income taxes to entities and owners. The adoption of the guidance did not have a material impact on the Partnership's financial statements.

In September 2009, the FASB issued guidance on fair value measurements and disclosures relating to investments in certain entities that calculate net asset value ("NAV") per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, *Investment Companies*, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. Additional guidance is provided on the classification of investments for which NAV is used to measure fair value within the fair value hierarchy. If an entity has the ability to redeem its investment at net asset value at the measurement date or within the near term, the fair value measurement of the investment shall be categorized as a Level II fair value measurement. If an entity does not know when it will have the ability to redeem its investment or cannot do so in the near term, the fair value measurement of the investment shall be categorized as a Level III fair value measurement. The guidance is effective for interim and annual periods ending after December 15, 2009. The Partnership has adopted the guidance effective with the issuance of its December 31, 2009 financial statements with additional disclosure requirements presented in Note 5 "Net Asset Value as Fair Value" of the Partnership's financial statements.

In June 2009, the FASB issued amended guidance on issues related to variable interest entities ("VIEs"). The amendments will significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity's involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity's involvement with VIEs, irrespective of whether they qualify for deferral, as noted below. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. In February 2010, the FASB issued further guidance which provided a limited scope deferral for a reporting entity's interest in an entity that met all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone's involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules will result in the consolidation of certain CLO vehicles managed by Blackstone. The impact of consolidation of such vehicles is expected to have a material impact on the Consolidated and Combined Statements of Financial Condition. Based on the fair value of CLO assets and liabilities of impacted CLO vehicles managed by Blackstone as of January 1, 2010, the assets and liabilities of Blackstone would have increased by approximately $3.7 billion and $3.3 billion, respectively.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. As the guidance is limited to enhanced disclosures, the impact of adoption is not expected to have a material impact on the Partnership's 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. 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 and reflected as non-controlling interests in the consolidated and combined 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 (a) 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 (b) 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 Goodwill and Intangible Assets in the Consolidated and Combined Statements of Financial Condition as of December 31, 2009. 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 table 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"). The purchase consideration for 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 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%.

The final purchase price allocation for the GSO acquisition was 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 and Combined Statements 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) | $ (468,232) |
| Net Loss per Common Unit–Basic and Diluted Common Units Entitled to Priority Distributions | $ (4.34) | $ (1.78) |
| Common Units Not Entitled to Priority Distributions | $ (3.06) | |

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 carrying value of goodwill was $1.7 billion as of December 31, 2009 and December 31, 2008. Total goodwill has been allocated to each of the Partnership's segments as follows: Private Equity ($694.5 million); Real Estate ($421.7 million); Credit and Marketable Alternatives ($518.5 million); and Financial Advisory ($68.9 million). Goodwill has been tested for impairment. No impairment has been identified.

The following table outlines changes to the carrying amount of Intangible Assets, as of December 31, 2009 and 2008:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Finite-Lived Intangible Assets/ Contractual Rights | $1,348,370 | $1,348,370 |
| Accumulated Amortization | (428,893) | (270,844) |
| Intangible Assets, Net | $ 919,477 | $1,077,526 |

Amortization expense associated with Blackstone's intangible assets was $158.0 million, $153.2 million and $117.6 million for the years ended December 31, 2009, 2008 and 2007, respectively, 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, 2009 is expected to be approximately $158.0 million in the years ending December 31, 2010 and 2011 and $103.2 million, $51.7 million, and $50.3 million in the years ending December 31, 2012, 2013 and 2014, respectively. Blackstone's intangible assets as of December 31, 2009 are expected to amortize over a weighted-average period of 10 years.

## 4. INVESTMENTS

**Investments**

Investments consists of the following:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Investments of Consolidated Blackstone Funds | $1,306,445 | $1,556,261 |
| Equity Method Investments | 1,104,701 | 1,063,615 |
| High Grade Liquid Debt Strategies | 534,777 | – |
| Performance Fees and Allocations | 554,463 | 147,421 |
| Other Investments | 65,097 | 63,645 |
| | $3,565,483 | $2,830,942 |

Blackstone's share of Investments of Consolidated Blackstone Funds totaled $407.1 million and $409.2 million at December 31, 2009 and December 31, 2008, respectively.

At December 31, 2009 and December 31, 2008, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone's net assets. At December 31, 2009, no investments exceeded the 5% threshold. At December 31, 2008, Blackport Capital Fund Ltd. had a fair value of $594.5 million and was the sole investment to exceed the 5% threshold. Blackport Capital Fund Ltd. is held by a consolidated Blackstone Feeder Fund and represents its investment into a master fund.

### 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:

| | Fair Value | | Percentage of Investments of Consolidated Blackstone Funds | |
|---|---|---|---|---|
| **Geographic Region/Instrument Type/Industry Description or Investment Strategy** | **December 31, 2009** | **December 31, 2008** | **December 31, 2009** | **December 31, 2008** |
| **United States and Canada** | | | | |
| Investment Funds, principally related to credit and marketable alternative funds | | | | |
| Credit Driven | $ 277,245 | $ 695,620 | 21.3% | 44.7% |
| Diversified Investments | 300,907 | 289,817 | 23.1% | 18.6% |
| Equity | 80,956 | 34,499 | 6.2% | 2.2% |
| Other | 408 | 648 | – | 0.1% |
| Event-Driven | 95,760 | 55,216 | 7.4% | 3.6% |
| Investment Funds Total (Cost: 2009 – $803,771; 2008 – $1,283,697) | 755,276 | 1,075,800 | 58.0% | 69.2% |
| Equity Securities, principally related to credit and marketable alternatives and private equity funds | | | | |
| Manufacturing | 21,491 | 17,782 | 1.7% | 1.1% |
| Services | 86,600 | 81,543 | 6.7% | 5.2% |
| Natural Resources | 649 | 551 | – | – |
| Real Estate Assets | 462 | 1,769 | – | 0.1% |
| Equity Securities Total (Cost: 2009 – $112,364; 2008 – $112,739) | 109,202 | 101,645 | 8.4% | 6.4% |
| Partnership and LLC Interests, principally related to private equity and real estate funds | | | | |
| Real Estate Assets | 149,523 | 103,453 | 11.5% | 6.6% |
| Services | 87,406 | 98,592 | 6.7% | 6.3% |
| Manufacturing | 25,691 | 23,599 | 2.0% | 1.5% |
| Natural Resources | 357 | 317 | – | – |
| Credit Driven | 143 | 19,659 | – | 1.3% |
| Partnership and LLC Interests Total (Cost: 2009 – $442,545; 2008 – $294,846) | 263,120 | 245,620 | 20.2% | 15.7% |
| Debt Instruments, principally related to credit and marketable alternatives funds | | | | |
| Credit Driven | 29,330 | – | 2.2% | – |
| Manufacturing | 3,203 | 4,251 | 0.2% | 0.3% |
| Services | 7,837 | 4,093 | 0.6% | 0.3% |
| Real Estate Assets | 2,458 | 485 | 0.2% | – |
| Debt Instruments Total (Cost: 2009 – $37,983; 2008 – $9,396) | 42,828 | 8,829 | 3.2% | 0.6% |
| **United States and Canada Total (Cost: 2009 – $1,396,663; 2008 – $1,700,678)** | 1,170,426 | 1,431,894 | 89.3% | 91.9% |

| Geographic Region/Instrument Type/Industry Description or Investment Strategy | Fair Value December 31, 2009 | Fair Value December 31, 2008 | Percentage of Investments of Consolidated Blackstone Funds December 31, 2009 | Percentage of Investments of Consolidated Blackstone Funds December 31, 2008 |
|---|---|---|---|---|
| **Europe** | | | | |
| Equity Securities, principally related to credit and marketable alternatives and private equity funds | | | | |
| Manufacturing | $ 2,681 | $ 9,105 | 0.2% | 0.6% |
| Real Estate Assets | 365 | – | – | – |
| Services | 31,711 | 29,635 | 2.4% | 1.9% |
| Equity Securities Total (Cost: 2009 – $40,353; 2008 – $45,295) | 34,757 | 38,740 | 2.6% | 2.5% |
| Partnership and LLC Interests, principally related to private equity and real estate funds | | | | |
| Services | 29,270 | 31,572 | 2.2% | 2.0% |
| Real Estate Assets | 10,741 | 13,674 | 0.8% | 0.9% |
| Partnership and LLC Interests Total (Cost: 2009 – $48,334; 2008 – $46,104) | 40,011 | 45,246 | 3.0% | 2.9% |
| Debt Instruments, principally related to credit and marketable alternatives funds | | | | |
| Manufacturing | 544 | 187 | – | – |
| Services | 1,259 | – | 0.1% | – |
| Debt Instruments Total (Cost: 2009 – $1,624; 2008 – $1,256) | 1,803 | 187 | 0.1% | – |
| **Europe Total (Cost: 2009 – $90,311; 2008 – $92,655)** | 76,571 | 84,173 | 5.7% | 5.4% |
| **Asia** | | | | |
| Equity Securities, principally related to credit and marketable alternatives and private equity funds | | | | |
| Services | 8,031 | 11,201 | 0.6% | 0.8% |
| Manufacturing | 10,501 | 8,654 | 0.8% | 0.6% |
| Natural Resources | – | 442 | – | – |
| Real Estate Assets | – | 368 | – | – |
| Diversified Investments | 6,262 | – | 0.5% | – |
| Equity Securities Total (Cost: 2009 – $20,794; 2008 – $22,155) | 24,794 | 20,665 | 1.9% | 1.4% |
| Partnership and LLC Interests, principally related to private equity and real estate funds | | | | |
| Manufacturing | 1,183 | 1,184 | 0.1% | 0.1% |
| Real Estate Assets | 457 | 707 | – | – |
| Services | 82 | 45 | – | – |
| Partnership and LLC Interests Total (Cost: 2009 – $1,833; 2008 – $1,811) | 1,722 | 1,936 | 0.1% | 0.1% |
| Debt Instruments, principally related to credit and marketable alternatives funds (Cost: 2009 – $114; 2008 – $256) | 111 | 151 | – | – |
| **Asia Total (Cost: 2009 – $22,741; 2008 – $24,222)** | 26,627 | 22,752 | 2.0% | 1.5% |

| Geographic Region/Instrument Type/Industry Description or Investment Strategy | Fair Value December 31, 2009 | Fair Value December 31, 2008 | Percentage of Investments of Consolidated Blackstone Funds December 31, 2009 | Percentage of Investments of Consolidated Blackstone Funds December 31, 2008 |
|---|---|---|---|---|
| **Other** | | | | |
| Equity Securities, principally related to private equity funds | | | | |
| Natural Resources | $ 1,583 | $ 1,022 | 0.1% | 0.1% |
| Services | 4,560 | 2,737 | 0.3% | 0.3% |
| Equity Securities Total (Cost: 2009 – $2,777; 2008 – $2,606) | 6,143 | 3,759 | 0.4% | 0.4% |
| Partnership and LLC Interests, principally related to private equity and real estate funds | | | | |
| Natural Resources | 26,586 | 13,599 | 2.0% | 0.9% |
| Services | 92 | 84 | – | 0.1% |
| Partnership and LLC Interests Total (Cost: 2009 – $9,249; 2008 – $5,063) | 26,678 | 13,683 | 2.0% | 1.0% |
| **Other Total (Cost: 2009 – $12,026; 2008 – $7,669)** | 32,821 | 17,442 | 2.5% | 1.2% |
| **Total Investments of Consolidated Blackstone Funds (Cost: 2009 – $1,521,741; 2008 – $1,825,224)** | $1,306,445 | $1,556,261 | 100.0% | 100.0% |

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 the fair value of the consolidated Blackstone Funds' investments. The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

| | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Realized Gains (Losses) | $(200,291) | $ (281,408) | $3,509,318 |
| Net Change in Unrealized Gains (Losses) | 342,870 | (740,019) | 2,796,235 |
| | $ 142,579 | $(1,021,427) | $6,305,553 |

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

| | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds | $142,579 | $(1,021,427) | $6,305,553 |
| Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles | (1,327) | 52,975 | (52,142) |
| Reclassification to Performance Fees and Allocations and Investment Income (Loss) and Other Attributable to Blackstone Funds Prior to Deconsolidation | – | – | (1,184,457) |
| Interest and Dividend Income and Other Attributable to Consolidated Blackstone Funds | 35,442 | 96,116 | 354,178 |
| Other Income – Net Gains (Losses) from Fund Investment Activities | $176,694 | $ (872,336) | $ 5,423,132 |

### Equity Method Investments

The Partnership recognized net gains (losses) related to its equity method investments of $4.0 million, $(551.8) million, and $163.5 million for the years ending December 31, 2009, 2008, and 2007, respectively.

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-oriented funds, which are not consolidated but in which the Partnership exerts significant influence. As of December 31, 2009 and 2008, no single equity method investment held by Blackstone exceeded 20% of its total consolidated assets. As such, Blackstone is not required to present separate financial statements for any of its equity method investees.

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

| | December 31, 2009 and the Year Then Ended | | | |
|---|---|---|---|---|
| | Private Equity | Real Estate | Credit and Marketable Alternatives | Total |
| Statement of Financial Condition | | | | |
| Assets | | | | |
| Investments | $18,237,938 | $ 7,862,872 | $15,857,948 | $41,958,758 |
| Other Assets | 169,200 | 528,337 | 3,124,038 | 3,821,575 |
| Total Assets | $18,407,138 | $ 8,391,209 | $18,981,986 | $45,780,333 |
| Liabilities and Partners' Capital | | | | |
| Debt | $ 455,862 | $ 224,389 | $ 1,312,893 | $ 1,993,144 |
| Other Liabilities | 56,957 | 115,059 | 2,053,134 | 2,225,150 |
| Total Liabilities | 512,819 | 339,448 | 3,366,027 | 4,218,294 |
| Partners' Capital | 17,894,319 | 8,051,761 | 15,615,959 | 41,562,039 |
| Total Liabilities and Partners' Capital | $18,407,138 | $ 8,391,209 | $18,981,986 | $45,780,333 |
| Statement of Income | | | | |
| Interest Income | $ 19,480 | $ 12,704 | $ 580,188 | $ 612,372 |
| Other Income | 26,828 | 133,599 | 68,472 | 228,899 |
| Interest Expense | (5,590) | (5,391) | (59,537) | (70,518) |
| Other Expenses | (38,419) | (36,794) | (158,635) | (233,848) |
| Net Realized and Unrealized Gain (Loss) from Investments | 1,775,403 | (3,813,103) | 3,118,916 | 1,081,216 |
| Net Income (Loss) | $ 1,777,702 | $(3,708,985) | $ 3,549,404 | $ 1,618,121 |

### High Grade Liquid Debt Strategies

High Grade Liquid Debt Strategies represents the Partnership's liquid investments in government and other investment grade securities, managed by third party institutions. The Partnership has managed its credit risk through diversification of its investments among major financial institutions, all of which have investment grade ratings.

During the year ended December 31, 2009, the Partnership recognized realized gains of $10.1 million and the net change in unrealized gains was $1.8 million.

### Performance Fees and Allocations

Performance Fees and Allocations to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-oriented funds are as follows:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Performance Fees and Allocations | | |
| Private Equity | $425,615 | $ 92,109 |
| Real Estate | 7,900 | 55,478 |
| Credit and Marketable Alternatives | 120,948 | (166) |
| | $554,463 | $147,421 |

### 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, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Realized Gains | $2,032 | $ (1,432) | $10,050 |
| Net Change in Unrealized Gains (Losses) | 6,164 | (9,159) | 2,803 |
| | $8,196 | $(10,591) | $12,853 |

## 5. NET ASSET VALUE AS FAIR VALUE

Certain of the consolidated Blackstone funds of hedge funds and credit-oriented funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investees' partnership agreements and offering memoranda generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A summary of fair value by strategy type alongside the consolidated funds of hedge funds' remaining unfunded commitments and ability to redeem such investments as of December 31, 2009 is presented below:

| Strategy | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Credit Driven | $274,153 | $30,336 | (a) | (a) |
| Diversified Instruments | 300,908 | 13,040 | (b) | (b) |
| Equity | 80,956 | – | (c) | (c) |
| Other | 95,759 | – | (d) | (d) |
| | $751,776 | $43,376 | | |

(a) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 34% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Of this balance, 9% of investments are redeemable after July 1, 2010, on an annual basis, subject to a 60-day notice period. 36% of the value of the investments in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose to (but may not have exercised such ability) side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments. 29% of investments within this category represent an investment in a fund of hedge funds that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated. The remaining 1% of investments within this category are redeemable as of the reporting date.

(b) Diversified Instruments includes investments in hedge funds that invest across multiple strategies. Investments representing 98% of the value of the investments in this category are subject to redemption restrictions at the discretion of the investee fund manager who may choose to (but may not have exercised such ability) side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 12% of Blackstone's investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated.

(c) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 46% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 54% are subject to redemption restrictions at the discretion of the investee fund manager who may choose to (but may not have elected such ability) side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments.

(d) Included within the Other category are investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.

### 6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone enters into derivative instruments in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone and the Blackstone Funds enter into derivative instruments in the normal course of business to achieve certain other risk management objectives and for general investment purposes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Fair Value Hedges**

The Partnership uses interest rate swaps to hedge all or a portion of the interest rate risk associated with its fixed rate borrowings. The Partnership has designated these financial instruments as fair value hedges. Changes in fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged liability, are recorded within General, Administrative and Other in the Consolidated and Combined Statements of Operations. The fair value of the derivative instrument is reflected within Other Assets in the Consolidated and Combined Statements of Financial Condition.

**Free Standing Derivatives**

Free standing derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include foreign exchange contracts, equity swaps, options and other derivative contracts. Changes in the fair value of derivative instruments held by Blackstone funds are reflected in Net Gains (Losses) from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income, in the Consolidated and Combined Statements of Operations. The fair value of free standing derivative assets are recorded within Investments, and free standing derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated and Combined Statements of Financial Condition.

The table below summarizes the aggregate notional amount and fair value of the derivative instruments as of December 31, 2009:

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| **Fair Value Hedges** | | | | |
| Interest Rate Swaps | $ – | $ – | $450,000 | $19 |
| **Free Standing Derivatives** | | | | |
| Free Standing Derivatives | 2,039 | 653 | 656 | 4 |
| Total | $2,039 | $653 | $450,656 | $23 |

The Partnership had no material derivative contracts as of December 31, 2008.

Where hedge accounting is applied, hedge effectiveness testing is performed at least monthly to monitor ongoing effectiveness of the hedge relationships. During the year ended December 31, 2009, the amount of ineffectiveness related to the interest rate swap hedges was a loss of $1.7 million. During the year ended December 31, 2009, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness for its fair value hedges was a loss of $8.7 million. The Partnership had no derivatives designated as fair value hedges in 2008 and 2007.

During the year ended December 31, 2009, the Partnership recognized an immaterial amount of realized and unrealized gains (losses) related to free standing derivative instruments. Amounts recognized in the years ended December 31, 2008 and 2007 were not material.

### 7. FAIR VALUE OPTION

The following table summarizes the financial instruments for which the fair value option has been elected:

| | As of December 31, 2009 | Year Ended December 31, 2009 Net Change in Unrealized Gains |
|---|---|---|
| Loans and Receivables | $68,550 | $101 |
| Debt Securities | 26,466 | 364 |
| Equity Securities | 1,905 | – |
| | $96,921 | $465 |

The Partnership did not dispose of any investments for which the fair value option was elected during the year ending December 31, 2009. The Partnership did not hold material financial instruments on which the fair value option was elected during 2008 and 2007.

As of December 31, 2009, the fair value of Loans and Receivables and Debt Securities for which the fair value option was elected exceeded the principal amount due by $0.5 million. No loans and receivables on which the fair value option was elected are past due or in non-accrual status.

### 8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following table summarizes the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy as of December 31, 2009 and 2008, respectively:

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| **Assets** | | | | |
| Investments of Consolidated Blackstone Funds | $ 80,610 | $ 33,355 | $1,192,463 | $1,306,428 |
| High Grade Liquid Debt Strategies | 398,487 | 136,290 | – | 534,777 |
| Loans and Receivables | – | – | 68,550 | 68,550 |
| Free Standing Derivative Instruments, Net | 2 | 279 | 368 | 649 |
| Other Investments(a) | 8,711 | 10,176 | 46,210 | 65,097 |
| | $487,810 | $180,100 | $1,307,591 | $1,975,501 |
| **Liabilities** | | | | |
| Derivative Instruments Used for Fair Value Hedges | $ – | $ 19 | $ – | $ 19 |
| Securities Sold, Not Yet Purchased | 357 | – | – | 357 |
| | $ 357 | $ 19 | $ – | $ 376 |

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| **Assets** | | | | |
| Investments of Consolidated Blackstone Funds | $58,406 | $994 | $ 1,496,861 | $ 1,556,261 |
| Other Investments | 22,499 | – | 41,146 | 63,645 |
| | $80,905 | $994 | $1,538,007 | $ 1,619,906 |
| **Liabilities** | | | | |
| Securities Sold, Not Yet Purchased | $ 894 | $ – | $ – | $ 894 |
| | $ 894 | $ – | $ – | $ 894 |

(a) Included within Level III of Other Investments are investments in debt and equity securities of $26.5 million and $1.9 million, respectively, for which the fair value option has been elected.

The following table summarizes the valuation methodology used in the determination of the fair value of financial instruments for which Level III inputs were used as of December 31, 2009.

| Valuation Methodology | Private Equity | Real Estate | Credit and Marketable Alternatives | Financial Advisory | Total |
|---|---|---|---|---|---|
| Third-Party Fund Managers | – | – | 57% | – | 57% |
| Specific Valuation Metrics | 20% | 15% | 5% | 3% | 43% |
| | 20% | 15% | 62% | 3% | 100% |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Balance, Beginning of Period | $1,538,007 | $2,362,542 |
| Transfer In (Out) of Level III, Net | 81,640 | (323,422) |
| Purchases (Sales), Net | (429,760) | 108,838 |
| Realized Gains (Losses), Net | (194,495) | 2,630 |
| Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date | 312,199 | (612,581) |
| Balance, End of Period | $1,307,591 | $1,538,007 |

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.

For the year ended December 31, 2009, the transfer in of Level III investments, net, was principally due to an asset transfer from a non-consolidated Blackstone Fund to a consolidated Blackstone Fund. For the year ended December 31, 2008, the transfer out of Level III investments, net, was principally due to the deconsolidation of three Blackstone Funds.

## 9. VARIABLE INTEREST ENTITIES

The Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit oriented or funds of hedge fund entities. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. 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. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The gross assets and liabilities of consolidated VIEs reflected in the Consolidated and Combined Statements of Financial Condition as of December 31, 2009 were $741.0 million and $38.0 million, respectively. As of December 31, 2008, gross assets and liabilities of consolidated VIEs were $861.3 million and $28.7 million, respectively. There is no recourse to the Partnership for the consolidated VIEs' liabilities. The assets of consolidated VIEs comprise primarily investments and are included within Investments in the Consolidated and Combined Statements of Financial Condition.

The Partnership holds significant variable interests or acts as the sponsor for certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. As of December 31, 2009, assets and liabilities recognized in the Partnership's Consolidated and Combined Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were $133.9 million and $0.1 million, respectively. Assets consisted of $21.7 million of investments and $112.2 million of receivables. As of December 31, 2008, assets and liabilities recognized in the Partnership's financial statements were $140.0 million and $0.2 million, respectively. Assets recognized as of December 31, 2008 were comprised of investments of $81.1 million and receivables of $58.9 million. The Partnership's maximum exposure to loss relating to non-consolidated VIEs as of December 31, 2009 and 2008 was $98.9 million and $140.0 million, respectively.

## 10. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other Assets consists of the following:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Furniture, Equipment and Leasehold Improvements | $210,189 | $194,576 |
| Less: Accumulated Depreciation | (92,774) | (75,610) |
| Furniture, Equipment and Leasehold Improvements, Net | 117,415 | 118,966 |
| Prepaid Expenses | 31,232 | 36,533 |
| Other Assets | 23,909 | 64,478 |
| | $172,556 | $219,977 |

Depreciation expense of $17.2 million, $18.2 million and $11.2 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2009, 2008 and 2007, respectively, is included in General, Administrative and Other in the accompanying Consolidated and Combined Statements of Operations. The 2009 depreciation expense is net of $6.6 million of accumulated depreciation reversed during the year due to the disposal of assets.

Accounts Payable, Accrued Expenses and Other Liabilities includes $144.0 million and $1,103.4 million as of December 31, 2009 and 2008, respectively, relating to redemptions that were legally payable to investors as of the balance sheet dates.

## 11. BORROWINGS

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Credit Available | Borrowing Outstanding | Weighted Average Borrowing Rate | Credit Available | Borrowing Outstanding | Weighted Average Interest Rate |
| Revolving Credit Facility[a] | $ 850,000 | $ – | – | $1,000,000 | $250,000 | 1.97% |
| Blackstone Issued 6.625% Notes Due 8/15/2019[b] | 600,000 | 600,000 | 6.63% | – | – | – |
| Operating Entities Facilities[c] | 63,369 | 63,369 | 1.50% | 116,750 | 109,618 | 2.08% |
| Corporate Debt Credit Facilites[d] | – | – | – | 90,000 | 25,000 | 3.25% |
| | 1,513,369 | 663,369 | 6.13% | 1,206,750 | 384,618 | 2.08% |
| Blackstone Fund Facilities[e] | 38,809 | 5,630 | 2.3% | 77,566 | 2,382 | 3.28% |
| | $ 1,552,178 | $668,999 | 6.10% | $1,284,316 | $387,000 | 2.09% |

(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, 2010, the maturity date of the facility, are payable at that time. The facility is unsecured and unguaranteed. There is a commitment fee of 0.5% per annum, as defined, on the unused portion of this facility. As of December 31, 2009, the Partnership had no outstanding borrowings under this revolving credit facility.

(b) Represents long term borrowings in the form of senior notes (the "Notes") issued by Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, on August 20, 2009. Such notes have a contractual maturity of August 15, 2019. The Notes, which were issued at a discount, have an interest rate of 6.625% per annum, accruing from August 20, 2009. Interest is paid semiannually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings, and the Issuer (the "Guarantors"). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Interest expense on the Notes was $14.6 million for the year ended December 31, 2009. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. As of December 31, 2009, the fair value of the Notes was $588.6 million.

The indenture includes covenants, including limitations on the Issuer's and the Guarantor's ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture also provides for events of default. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically becomes due and payable. All or a portion of the Notes may be redeemed at the Issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the repurchase date.

(c) 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 five-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.

(d) 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 (a) the investment's disposition or (b) 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. As of December 31, 2009, these facilities have been terminated.

(e) 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 part of Blackstone's long term borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2009.

Scheduled principal payments for long-term borrowings at December 31, 2009 are as follows:

| | |
|---|---|
| 2010 | $ 23,820 |
| 2011 | 22,278 |
| 2012 | 9,985 |
| 2013 | 2,245 |
| 2014 | 5,040 |
| Thereafter | 600,000 |
| Total | $ 663,369 |

## 12. INCOME TAXES

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Current** | | | |
| Federal Income Tax | $ 8,027 | $ 3,936 | $ 11,938 |
| Foreign Income Tax | 4,517 | 8,304 | 5,630 |
| State and Local Income Tax | 41,219 | 25,114 | 47,346 |
| | 53,763 | 37,354 | 64,914 |
| **Deferred** | | | |
| Federal Income Tax | 30,581 | (34,090) | (10,287) |
| Foreign Income Tax | (597) | – | – |
| State and Local Income Tax | 15,483 | (17,409) | (6,934) |
| | 45,467 | (51,499) | (17,221) |
| Total Provision (Benefit) for Taxes | $ 99,230 | $ (14,145) | $ 47,693 |

The Partnership's effective income tax rate was approximately (4.33%), 0.25%, and 0.84% for the years ended December 31, 2009, 2008 and 2007, respectively.

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, | |
|---|---|---|
| | 2009 | 2008 |
| **Deferred Tax Assets** | | |
| Fund Management Fees | $ 12,804 | $ 5,860 |
| Equity-based Compensation | 36,087 | 33,224 |
| Unrealized Loss from Investments | 38,937 | 22,464 |
| Depreciation and Amortization | 841,086 | 731,064 |
| Net Operating Loss Carry Forward | 7,729 | 49,292 |
| Other | 6,869 | 3,674 |
| Total Deferred Tax Assets | $ 943,512 | $ 845,578 |
| **Deferred Tax Liabilities** | | |
| Depreciation and Amortization | $ 18,251 | $ 16,705 |
| **Total Deferred Tax Liabilities** | **$ 18,251** | **$ 16,705** |

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

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. While the Partnership expects to record significant net losses from a financial reporting perspective, it does not expect to record comparable losses on a tax basis. Whereas the amortization of non-cash equity compensation results in a significant charge to net income and is a significant contributor to the expected financial reporting losses, these charges are largely not tax deductible and, as a result, do not decrease taxable income or contribute to a taxable loss.

The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had taxable income in 2007 and 2009 and thus fully utilized the tax benefit from the amortization of the tax basis intangibles for all years since the IPO. The Partnership had a taxable loss of $21.3 million at the end of 2009 that will be carried back and utilized against prior year taxable income. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance. In addition, at this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized.

Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2009.

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

| | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Statutory U.S. Federal Income Tax Rate | 35.00% | 35.00% | 35.00% |
| Income Passed Through to Common Unitholders and Non-Controlling Interest Holders[a] | (33.00)% | (32.68)% | (35.92)% |
| Interest Expense | 1.84% | 0.75% | (0.09)% |
| Foreign Income Taxes | (0.15)% | (0.15)% | 0.10% |
| State and Local Income Taxes | (1.97)% | (0.19)% | 0.69% |
| Equity-based Compensation | (6.45)% | (2.48)% | 1.06% |
| Other | 0.40% | – | – |
| Effective Income Tax Rate[b] | (4.33)% | 0.25% | 0.84% |

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

(b) The effective tax rate is calculated on Income (Loss) Before Provision (Benefit) for Taxes.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2009, Blackstone's and the predecessor entities' U.S. federal income tax returns for the years 2006 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 2005 through 2008. Currently, the City of New York is examining certain subsidiaries' tax returns for the years 2003 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 2007. Blackstone does not believe that the outcome of these examinations will require it to record reserves for uncertain tax positions 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.

## 13. NET LOSS PER COMMON UNIT

Basic and diluted net loss per common unit entitled to priority distributions and per common unit not entitled to priority distributions for the years ending December 31, 2009 and 2008 is calculated as follows:

| | Basic and Diluted Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Total Undistributed Loss | | |
| Net Loss Allocable to Common Unitholders | $ (715,291) | $(1,163,032) |
| Less: Distributions to Common Unitholders | (356,958) | (240,402) |
| Total Undistributed Loss | $(1,072,249) | $(1,403,434) |
| Allocation of Total Undistributed Loss | | |
| Undistributed Loss – Common Unitholders Entitled to Priority Distributions | $(1,058,052) | $(1,394,271) |
| Undistributed Loss – Common Unitholders Not Entitled to Priority Distributions | (14,197) | (9,164) |
| Total Undistributed Loss | $(1,072,249) | $(1,403,434) |
| Net Loss Per Common Unit – Common Units Entitled to Priority Distributions | | |
| Undistributed Loss per Common Unit | $ (3.71) | $ (5.22) |
| Priority Distributions[a] | 1.25 | 0.90 |
| Net Loss Per Common Unit – Common Units Entitled to Priority Distributions | $ (2.46) | $ (4.32) |
| Net Loss Per Common Unit – Common Units Not Entitled to Priority Distributions | | |
| Undistributed Loss per Common Unit | $ (3.71) | $ (3.06) |
| Priority Distributions | – | – |
| Net Loss Per Common Unit – Common Units Not Entitled to Priority Distributions | $ (3.71) | $ (3.06) |
| Weighted-Average Common Units Outstanding – Common Units Entitled to Priority Distributions | 285,163,954 | 266,876,031 |
| Common Units Not Entitled to Priority Distributions | 3,826,233 | 1,501,373 |
| Total Weighted-Average Common Units Outstanding | 288,990,187 | 268,377,404 |

(a) Undistributed Loss per Common Unit – Priority Distributions is based on common units outstanding at the end of the reporting period and will differ from actual distributions paid to common unitholders which are based on common units outstanding at the time priority distributions are made.

For the years ended December 31, 2009 and 2008, a total of 22,453,412 and 29,117,068 unvested deferred restricted common units and 812,377,553 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, respectively.

Basic and diluted net loss per common unit for the twelve months ended December 31, 2007 are calculated as follows:

| | Basic and Diluted<br>June 19, 2007 through December 31, 2007 |
|---|---|
| Net Loss Allocable to Common Unitholders | $(335,514) |
| Weighted-Average Common Units Outstanding | 262,810,720 |
| Net Loss per Common Unit | $ (1.28) |

For the year ended December 31, 2007, a total of 31,249,103 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**

Blackstone's current intention is to distribute to its common unitholders substantially all of The Blackstone Group L.P.'s net after-tax share of annual Distributable Earnings in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of the Partnership's business, to make appropriate investments in the business and funds, to comply with applicable law, any of Blackstone's debt instruments or other agreements, or to provide for future distributions to Blackstone's common unitholders for any ensuing quarter. Because Blackstone will not know what the Distributable Earnings will be for any fiscal year until the end of such year, the Partnership expects that the first three quarterly distributions in respect of any given year will be based on the anticipated annualized Net Fee Related Earnings only. As such, the distribution for the first three quarters will likely be smaller than the final quarterly distribution in respect of such year, which Blackstone expects to also include realized Performance Fees and Allocations net of related compensation and realized net investment income.

In most years the aggregate amounts of distributions to unitholders will not equal Distributable Earnings for that year. Distributable Earnings will only be a starting point for the determination of the amount to be distributed to unitholders because as noted above, in determining the amount to be distributed Blackstone will subtract from Distributable Earnings any amounts determined by its general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and its funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future distributions to its unitholders for any ensuing quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of the general partner and the general partner may change the distribution policy at any time.

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

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

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in the Notes to Consolidated and Combined Financial Statements, Footnote 15 – Related Party Transactions, the amounts ultimately distributed by The Blackstone Group L.P. to common unitholders in respect of fiscal 2010 and subsequent years are expected to be different, and in many years likely less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

In addition, the partnership agreements of the Blackstone Holdings partnerships provide for cash distributions, which are 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 the partners. Generally, these tax distributions will be computed based on the

Partnership'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 the Partnership's 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.

**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, 2009, Blackstone repurchased a combination of 4,689,101 vested and unvested Blackstone Holdings Partnership Units and Blackstone Common Units as part of the unit repurchase program for a total cost of $30.5 million. As of December 31, 2009, the amount remaining available for repurchases was $339.5 million under this program.

## 14. 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) which may contain certain service or performance requirements. As of January 1, 2009, the Partnership had the ability to grant 163,041,206 units under the Equity Plan for the year ended December 31, 2009.

The Partnership recorded total compensation expense in relation to its equity-based awards of $3.0 billion and $3.3 billion for the years ending December 31, 2009 and 2008, respectively with corresponding tax benefits of $13.7 million and $16.4 million, respectively. As of December 31, 2009, there was $6.3 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.3 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,126,974,312 as of December 31, 2009. Total outstanding unvested phantom units were 208,592 as of December 31, 2009.

A summary of the status of the Partnership's unvested equity-based awards as of December 31, 2009 and a summary of changes during the period January 1, 2009 through December 31, 2009, 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 and Options | Weighted-Average Grant Date Fair Value | Phantom Units | Weighted-Average Grant Date Fair Value |
| Balance, December 31, 2008 | 354,311,432 | $30.89 | 28,569,608 | $25.90 | 532,794 | $26.09 |
| Granted | 3,019,136 | 7.53 | 7,527,485 | 12.71 | 7,380 | 12.05 |
| Vested | (77,736,791) | 30.89 | (9,634,609) | 20.70 | (294,130) | 26.26 |
| Exchanged | (1,186,174) | 6.59 | 1,182,852 | 6.59 | 3,322 | 5.80 |
| Forfeited | (7,948,878) | 30.16 | (3,902,643) | 25.47 | (40,774) | 26.19 |
| Balance, December 31, 2009 | 270,458,725 | $30.76 | 23,742,693 | $23.10 | 208,592 | $25.07 |

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 $3.3 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, 2009, are expected to vest:

| | Units | Weighted-Average Service Period in Years |
|---|---|---|
| Blackstone Holdings Partnership Units | 256,757,930 | 3.9 |
| Deferred Restricted Blackstone Common Units and Options | 19,670,258 | 4.1 |
| Total Equity-Based Awards | 276,428,188 | 3.9 |
| Phantom Units | 191,128 | 0.6 |

**Deferred Restricted Common Units and Phantom Units**

The Partnership has granted deferred restricted common units to some senior and 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 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.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's Common Units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 10 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 16% annually by employee class, and a per unit discount, ranging from $0.01 to $14.89 as a majority of these unvested awards do not contain distribution participation rights. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

Subject to 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 7% to 16% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid $3.5 million, $6.7 million and $0.5 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2009, 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 were to vest over a period of up to 8 years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has accounted for the unvested Blackstone Holdings Partnership Units as compensation expense. The fair values have been derived based on the closing price of Blackstone's Common Units on the date of the grant, or $31 (based on the initial public offering price per Blackstone Common Unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 16%, based on historical experience.

In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payments to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units; (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations; and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone Common Units, there was no change in the fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

**Equity-Based Awards with Performance Conditions**
The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over the five-year period beginning January 2008, relative to a predetermined threshold. As of December 31, 2009, the thresholds for 2009 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, 2009. 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 is accounted for as a liability as required by GAAP 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, specifically, 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.

## 15. RELATED PARTY TRANSACTIONS

**Affiliate Receivables and Payables**
Blackstone considers its Founders, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of December 31, 2009 and 2008, Due from Affiliates and Due to Affiliates comprised the following:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| **Due from Affiliates** | | |
| Accrual for Potential Clawback of Previously Distributed Interest | $ 308,378 | $ 226,870 |
| Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds | 127,669 | 175,268 |
| Amounts Due from Portfolio Companies and Funds | 115,441 | 72,376 |
| Investments Redeemed in Non-Consolidated Funds of Funds | 77,600 | 496,350 |
| Management and Performance Fees Due from Non-Consolidated Funds of Funds | 68,649 | 50,774 |
| Payments Made on Behalf of Non-Consolidated Entities | 53,581 | 58,536 |
| Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees | 8,589 | 8,130 |
| | $ 759,907 | $1,088,304 |
| **Due to Affiliates** | | |
| Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreement | $ 830,517 | $ 722,449 |
| Accrual for Potential Repayment of Previously Received Performance Fees and Allocations | 485,253 | 260,018 |
| Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees | 58,083 | 262,737 |
| Distributions Received on Behalf of Non-Consolidated Entities | 31,692 | 22,938 |
| Payments Made by Non-Consolidated Entities | 4,521 | 17,435 |
| | $ 1,410,066 | $1,285,577 |

**Interests of the Co-Founder, Senior Managing Directors and Employees**

The Co-Founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee and allocation arrangements. As of December 31, 2009 and 2008, the Co-Founder's, other senior managing directors' and employees' investments aggregated $649.4 million and $507.2 million, respectively, and the Co-Founder's, other senior managing directors' and employees' share of the Non-Controlling Interests in Income (Loss) of Consolidated Entities aggregated $31.2 million, $(281.7) million and $279.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees earned from affiliates totaled $134.3 million, $188.3 million and $595.0 million for the years ended December 31, 2009, 2008 and 2007, 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 $2.2 million, $6.0 million, and $6.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap), to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees and Allocations represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2009. See Note 16 "Contingent Obligations (Clawback)".

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman ("Personal Aircraft"). In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman paid for his purchases of the aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. In addition, Mr. Schwarzman is charged for his and his family's personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the consolidated 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 $830.5 million over the next 15 years. The after-tax present value of these estimated payments totals $228.6 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. 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. Subsequent to December 31, 2009, payments totaling $4,076,382 were made to certain pre-IPO owners in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2008 taxable year.

**Other**

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

## 16. COMMITMENTS AND CONTINGENCIES

**Commitments**

***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, 2009, 2008 and 2007, was $63.1 million, $40.7 million and $30.2 million, respectively. At December 31, 2009 and 2008, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of $9.9 million and $10.4 million, respectively. As of December 31, 2009, the approximate aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

| | |
|---|---|
| 2010 | $ 54,669 |
| 2011 | 49,929 |
| 2012 | 47,709 |
| 2013 | 47,593 |
| 2014 | 44,979 |
| Thereafter | 298,352 |
| | $543,231 |

***Investment Commitments.*** The consolidated Blackstone Funds had signed investment commitments of $24.2 million as of December 31, 2009. Included in this is $0.4 million of signed investment commitments for portfolio company acquisitions in the process of closing. In addition, the general partners of the Blackstone Funds had unfunded commitments to each of their respective funds of $1.3 billion as of December 31, 2009.

**Contingencies**

***Guarantees.*** Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by real estate funds was $6.4 million as of December 31, 2009.

***Contingent Performance Fees and Allocations.*** There were $46.7 million of performance fees and allocations related to the hedge funds in the credit and marketable alternatives segment for the year ended December 31, 2009 attributable to arrangements where the measurement period had 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. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially adversely affect its results of operations, financial position or cash flows.

***Contingent Obligations (Clawback).*** Included within Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations are gains from Blackstone Fund investments. The portion of net gains (losses) attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains (losses) 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.

The actual clawback liability, however, does not become realized until the end of a fund's life except for Blackstone's real estate funds which may have a clawback liability come due one year after a realized loss is incurred, depending on the fund. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points beginning toward the end of 2012 and extending through 2018. Further extensions of such terms may be implemented under given circumstances.

As of December 31, 2009, the current cash clawback obligation of the Blackstone general partners to the limited partner investors of the private equity, real estate and credit-oriented funds is zero. For financial reporting purposes, however, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of December 31, 2009, the clawback obligations, which are not currently due, were $485.3 million, of which $217.4 million related to Blackstone Holdings and $267.9 million related to current and former Blackstone personnel. As of December 31, 2008, such obligations were $260.0 million, of which $109.8 million related to Blackstone Holdings and $150.2 million related to current and former Blackstone personnel. The Accrual for Potential Repayment of Previously Received Performance Fees and Allocations is included in Due to Affiliates.

The following table presents the clawback obligations by segment:

| | December 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| Segment | Blackstone Holdings | Current and Former Personnel | Total | Blackstone Holdings | Current and Former Personnel | Total |
| Private Equity | $ 65,237 | $120,208 | $185,445 | $ 63,643 | $118,928 | $182,571 |
| Real Estate | 152,142 | 147,666 | 299,808 | 46,014 | 31,145 | 77,159 |
| Credit and Marketable Alternatives | – | – | – | 183 | 105 | 288 |
| Total | $217,379 | $267,874 | $485,253 | $109,840 | $150,178 | $260,018 |

A portion of the carried interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the consolidated and combined financial statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At December 31, 2009, $474.4 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

## 17. 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, 2009, 2008 and 2007, the Partnership incurred expenses of $1.5 million, $1.3 million and $0.9 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, 2009, 2008 and 2007, the Partnership incurred expenses of $0.3 million, $0.3 million and $0.3 million, respectively, in connection with the UK Plan.

### 18. 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 two entities based in London which are subject to the capital requirements of the U.K. Financial Services Authority. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various 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, 2009, approximately $25.3 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

### 19. 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:

- Private Equity – Blackstone's Private Equity segment comprises its management of private equity funds.
- Real Estate – Blackstone's Real Estate segment comprises its management of general real estate funds and internationally focused real estate funds.
- Credit and Marketable Alternatives – Blackstone's Credit and Marketable Alternatives segment, whose consistent focus is current earnings, comprises its management of funds of hedge funds, credit-oriented funds, CLO vehicles, separately managed accounts and publicly-traded closed-end mutual funds. This segment was formerly known as Marketable Alternative Asset Management and has been renamed to better reflect the product mix in this segment. This does not reflect a change to the underlying businesses or how they are reflected in Blackstone's results of operation.
- 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 Private Equity, Real Estate and Credit and Marketable Alternatives 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 income before taxes excluding transaction-related charges. Transaction-related charges include principally 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, 2009:

| | December 31, 2009 and the Year then Ended | | | | |
|---|---|---|---|---|---|
| | Private Equity | Real Estate | Credit and Marketable Alternatives | Financial Advisory | Total Reportable Segments |
| Segment Revenues | | | | | |
| Management Fees and Advisory Fees | | | | | |
| Base Management Fees | $ 270,509 | $ 328,447 | $ 400,873 | $ – | $ 999,829 |
| Advisory Fees | – | – | – | 390,718 | 390,718 |
| Transaction and Other Fees, Net | 86,336 | 25,838 | 2,866 | – | 115,040 |
| Management Fee Offsets | – | (2,467) | (14,694) | – | (17,161) |
| Total Management and Advisory Fees | 356,845 | 351,818 | 389,045 | 390,718 | 1,488,426 |
| Performance Fees and Allocations | | | | | |
| Realized | 34,021 | (3,039) | 43,282 | – | 74,264 |
| Unrealized | 303,491 | (252,180) | 114,556 | – | 165,867 |
| Total Performance Fees and Allocations | 337,512 | (255,219) | 157,838 | – | 240,131 |
| Investment Income (Loss) | | | | | |
| Realized | 36,968 | 6,164 | (15,031) | 1,443 | 29,544 |
| Unrealized | 33,269 | (125,624) | 96,016 | 219 | 3,880 |
| Total Investment Income (Loss) | 70,237 | (119,460) | 80,985 | 1,662 | 33,424 |
| Interest and Dividend Revenue | 7,756 | 6,030 | 3,452 | 5,254 | 22,492 |
| Other | 2,845 | 3,261 | 1,025 | (35) | 7,096 |
| Total Revenues | 775,195 | (13,570) | 632,345 | 397,599 | 1,791,569 |
| Expenses | | | | | |
| Compensation and Benefits | | | | | |
| Base Compensation | 181,266 | 158,115 | 198,117 | 232,359 | 769,857 |
| Performance Fee Related | | | | | |
| Realized | 741 | 3,506 | 20,854 | – | 25,101 |
| Unrealized | 20,307 | (113,981) | 67,493 | – | (26,181) |
| Total Compensation and Benefits | 202,314 | 47,640 | 286,464 | 232,359 | 768,777 |
| Other Operating Expenses | 82,471 | 56,325 | 80,661 | 79,572 | 299,029 |
| Total Expenses | 284,785 | 103,965 | 367,125 | 311,931 | 1,067,806 |
| Economic Net Income (Loss) | $ 490,410 | $ (117,535) | $ 265,220 | $ 85,668 | $ 723,763 |
| Segment Assets | $ 2,870,238 | $ 1,940,925 | $2,706,169 | $ 986,624 | $ 8,503,956 |

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, 2009:

| | December 31, 2009 and the Year then Ended | | |
|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated |
| Revenues | $1,791,569 | $ (17,870)[(a)] | $ 1,773,699 |
| Expenses | $1,067,806 | $ 3,174,053[(b)] | $ 4,241,859 |
| Other Income | $ – | $ 176,694[(c)] | $ 176,694 |
| Economic Net Income (Loss) | $ 723,763 | $(3,015,229)[(d)] | $( 2,291,466) |
| Total Assets | $8,503,956 | $ 905,068[(e)] | $ 9,409,024 |

(a) The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone consolidated 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 transaction-related equity-based compensation to arrive at Blackstone consolidated and combined expenses.

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

| | Year Ended December 31, 2009 |
|---|---|
| Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation | $ 14,870 |
| Fund Expenses Added in Consolidation | 10,441 |
| Non-Controlling Interests in Income of Consolidated Entities | 151,383 |
| Total Consolidation Adjustments | $176,694 |

(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, 2009 |
|---|---|
| Economic Net Income (Loss) | $ 723,763 |
| Adjustments: | |
| Amortization of Intangibles | (158,048) |
| IPO and Acquisition-Related Charges | (2,973,950) |
| Income (Loss) Associated with Non-Controlling Interests in Income (Loss) of Consolidated Entities | 116,769 |
| Total Adjustments | (3,015,229) |
| Income (Loss) Before Provision (Benefit) for Taxes | $(2,291,466) |

(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, 2008:

| | December 31, 2008 and the Year then Ended | | | | |
|---|---|---|---|---|---|
| | Private Equity | Real Estate | Credit and Marketable Alternatives | Financial Advisory | Total Reportable Segments |
| Segment Revenues | | | | | |
| Management Fees and Advisory Fees | | | | | |
| Base Management Fees | $ 268,961 | $ 295,921 | $ 476,836 | $ – | $ 1,041,718 |
| Advisory Fees | – | – | – | 397,519 | 397,519 |
| Transaction and Other Fees, Net | 51,796 | 36,046 | 8,516 | – | 96,358 |
| Management Fee Offsets | (4,862) | (4,969) | (6,606) | – | (16,437) |
| Total Management and Advisory Fees | 315,895 | 326,998 | 478,746 | 397,519 | 1,519,158 |
| Performance Fees and Allocations | | | | | |
| Realized | (749) | 24,681 | 15,081 | – | 39,013 |
| Unrealized | (429,736) | (843,704) | (12,822) | – | (1,286,262) |
| Total Performance Fees and Allocations | (430,485) | (819,023) | 2,259 | – | (1,247,249) |
| Investment Income (Loss) | | | | | |
| Realized | 13,687 | 3,778 | (82,142) | – | (64,677) |
| Unrealized | (196,200) | (238,650) | (257,084) | – | (691,934) |
| Total Investment Income (Loss) | (182,513) | (234,872) | (339,226) | – | (756,611) |
| Interest and Dividend Revenue | 6,459 | 5,880 | 8,527 | 8,148 | 29,014 |
| Other | 4,474 | 3,008 | 1,214 | 4,899 | 13,595 |
| Total Revenues | (286,170) | (718,009) | 151,520 | 410,566 | (442,093) |
| Expenses | | | | | |
| Compensation and Benefits | | | | | |
| Base Compensation | 146,551 | 150,684 | 239,436 | 234,755 | 771,426 |
| Performance Fee Related | | | | | |
| Realized | (4,255) | 1,090 | 8,162 | – | 4,997 |
| Unrealized | (126,090) | (74,981) | (6,643) | – | (207,714) |
| Total 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 | $ 2,688,398 | $ 1,753,009 | $2,615,891 | $ 550,215 | $ 7,607,513 |

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, 2008:

| | December 31, 2008 and the Year then Ended | | |
|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated |
| Revenues | $ (442,093) | $ 92,732[a] | $ (349,361) |
| Expenses | $ 887,925 | $ 3,498,677[b] | $ 4,386,602 |
| Other Loss | $ – | $ (872,336)[c] | $ (872,336) |
| Economic Net Income (Loss) | $(1,330,018) | $(4,278,281)[d] | $(5,608,299) |
| Total Assets | $ 7,607,513 | $ 1,881,544[e] | $ 9,489,057 |

(a) The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone consolidated 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 transaction-related 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 to Income Before Provision 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) |
| IPO and Acquisition-Related Charges | (3,331,722) |
| Other Adjustments | (999) |
| Income (Loss) Associated with Non-Controlling Interests in Income (Loss) of Consolidated Entities | (792,323) |
| Total Adjustments | (4,278,281) |
| Income (Loss) Before Provision (Benefit) for Taxes | $(5,608,299) |

(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, 2007:

| | December 31, 2007 and the Year then Ended | | | | |
|---|---|---|---|---|---|
| | Private Equity | Real Estate | Credit and Marketable Alternatives | Financial Advisory | Total Reportable Segments |
| Segment Revenues | | | | | |
| Management and Advisory Fees | | | | | |
| Base Management Fees | $ 254,843 | $ 233,072 | $316,337 | $ – | $ 804,252 |
| Advisory Fees | – | – | – | 360,284 | 360,284 |
| Transaction and Other Fees, Net | 123,770 | 348,410 | 6,630 | – | 478,810 |
| Management Fee Offsets | (10,734) | (11,717) | (33) | – | (22,484) |
| Total Management and Advisory Fees | 367,879 | 569,765 | 322,934 | 360,284 | 1,620,862 |
| Performance Fees and Allocations | | | | | |
| Realized | 574,274 | 326,514 | 154,028 | – | 1,054,816 |
| Unrealized | (194,357) | 297,437 | 2,952 | – | 106,032 |
| Total Performance Fees and Allocations | 379,917 | 623,951 | 156,980 | – | 1,160,848 |
| Investment Income (Loss) | | | | | |
| Realized | 131,498 | 68,996 | 62,363 | – | 262,857 |
| Unrealized | (16,166) | 65,472 | 81,439 | – | 130,745 |
| Total Investment Income (Loss) | 115,332 | 134,468 | 143,802 | – | 393,602 |
| Interest and Dividend Revenue | 1,731 | 1,321 | 4,249 | 7,385 | 14,686 |
| Other | 470 | 38 | 31 | (11) | 528 |
| Total Revenues | 865,329 | 1,329,543 | 627,996 | 367,658 | 3,190,526 |
| Expenses | | | | | |
| Compensation and Benefits | | | | | |
| Base Compensation | 132,119 | 147,829 | 82,594 | 132,633 | 495,175 |
| Performance Fee Related | | | | | |
| Realized | 14,534 | 8,560 | 68,109 | – | 91,203 |
| Unrealized | (50,251) | (11,243) | (373) | – | (61,867) |
| Total 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 |

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

| | Year Ended December 31, 2007 | | |
|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated and Combined |
| 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 | $3,289,488[(d)] | $5,708,436 |

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

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

| | Year Ended December 31, 2007 |
|---|---|
| Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation | $ 131,978 |
| Fund Expenses Added in Consolidation | 151,919 |
| 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 and other | $ 2,418,948 |
| Adjustments: | |
| Amortization of Intangibles | (117,607) |
| IPO and Acquisition-Related Charges | (1,732,134) |
| Other Adjustments | (6) |
| Income Associated with Non-Controlling Interests in Income of Consolidated Entities | 5,139,235 |
| Total Adjustments | 3,289,488 |
| Income (Loss) Before Provision (Benefit) for Taxes | $5,708,436 |

## 20. SUBSEQUENT EVENTS

There have been no events since December 31, 2009 that require recognition or disclosure in the Consolidated and Combined Financial Statements.

## 21. QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2009 | June 30, 2009 | September 30, 2009 | December 31, 2009 |
| Revenues | $ 44,914 | $ 406,416 | $ 597,023 | $ 725,346 |
| Expenses | 922,358 | 1,051,706 | 1,097,794 | 1,170,001 |
| Other Income (Loss) | (34,763) | 58,304 | 73,812 | 79,341 |
| Income (Loss) Before Provision for Taxes | $ (912,207) | $ (586,986) | $ (426,959) | $ (365,314) |
| Net Income (Loss) | $ (929,938) | $ (597,871) | $ (479,510) | $ (383,377) |
| Net Income (Loss) Attributable to The Blackstone Group L.P. | $ (231,574) | $ (164,284) | $ (176,183) | $ (143,250) |
| Net Loss Per Common Unit – Basic and Diluted | | | | |
| Common Units Entitled to Priority Distributions | $ (0.84) | $ (0.59) | $ (0.59) | $ (0.45) |
| Common Units Not Entitled to Priority Distributions | $ (1.14) | $ (0.90) | $ (0.92) | $ (0.76) |
| Priority Distributions Declared[(a)] | $ – | $ 0.30 | $ 0.30 | $ 0.30 |

| | 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 | (215,636) | 189,678 | (550,755) | (295,623) |
| Income (Loss) Before Provision for Taxes | (1,245,176) | (620,478) | (1,843,707) | (1,898,938) |
| Net Income (Loss) | $(1,254,157) | $ (594,627) | $(1,822,345) | $(1,923,025) |
| Net Income (Loss) Attributable to The Blackstone Group L.P. | $ (250,993) | $ (156,531) | $ (340,331) | $ (415,177) |
| Net Loss Per Common Unit – Basic and Diluted | | | | |
| Common Units Entitled to Priority Distributions | $ (0.95) | $ (0.60) | $ (1.26) | $ (1.51) |
| Common Units Not Entitled to Priority Distributions | | | $ (1.56) | $ (1.51) |
| Priority Distributions Declared[(a)] | $ 0.30 | $ 0.30 | $ 0.30 | $ 0.30 |

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

# 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
Blackstone 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
Blackstone Alternative Asset Management

**Tim Coleman**
Co- Head, Restructuring & Reorganization

**Robert L. Friedman**
Chief Legal Officer

**Bennett Goodman**
Co-Founder, Co-Head, 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

**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**
Cleantech Venture Partners
Infrastructure Partners
Zhonghua Development Fund

**Real Estate**
Real Estate Partners
Real Estate Partners International
Real Estate Debt Strategies

**Credit and Marketable Alternatives (CAMA)**
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**
Blackstone Advisory Partners, LP
Restructuring & Reorganization Advisory
Park Hill
  Park Hill LLC
  Park Hill Real Estate LLC

**Blackstone Greater China**
**Blackstone India**

# Unitholder Information

## Global Offices

**New York**
345 Park Avenue
New York, NY 10154

**Atlanta**
4401 Northside Parkway
3rd Floor, Suite 375
Atlanta, GA 30327

**Beijing**
Winland International Finance Center
Unit F817-18
No. 7, Finance Street
Xicheng District, Beijing, China 100140

**Boston**
Exchange Place
53 State Street
29th Floor
Boston, MA 02109

**Chicago**
200 West Madison Street
Suite 3800
Chicago, IL 60606

**Dallas**
3949 Maple Avenue
Suite 400
Dallas, TX 75219

**Hong Kong**
Two International Finance Centre
Suite 901, 9th Floor
8 Finance Street
Central, Hong Kong
China

**London**
40 Berkeley Square
London, W1J 5AL
United Kingdom

**Los Angeles**
1299 Ocean Ave
Suite 320
Santa Monica, CA 90401

**Menlo Park**
2494 Sand Hill Road
Suite 200
Menlo Park, CA 94025

**Mumbai**
Express Towers, 5th Floor
Nariman Point
Mumbai, 400 021
India

**Paris**
11-13 Avenue de Friedland
75008 Paris
France

**San Francisco**
101 California Street
Suite 2880
San Francisco, CA 94111

**Sydney**
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167 Macquarie Street
Sydney NSW 2000, Australia

**Tokyo**
11F AIG Building
1-1-3 Marunouchi, Chiyoda-Ku
Tokyo, 100-0005
Japan

## GSO Capital Partners

**New York**
280 Park Avenue
11th Floor
New York, NY 10017

**London**
13 Hanover Square
5th Floor
London, W1S 1HN
United Kingdom

**Houston**
11 Greenway Plaza
30th Floor, Suite 3050
Houston, TX 77046

## Number of Employees Globally

1,295

## Independent Auditors

Deloitte & Touche LLP

## Transfer Agent

American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11230
+1 800.937.5449

## Investor Relations

The Blackstone Group L.P.
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New York, NY 10154
+1 888.756.8443

## Additional Financial Information

Please visit www.blackstone.com for our complete 2009 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 2009 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 | |
|---|---|---|
| 2009 | High | Low |
| First Quarter | $ 9.19 | $ 3.55 |
| Second Quarter | $14.44 | $ 6.89 |
| Third Quarter | $15.38 | $ 8.54 |
| Fourth Quarter | $17.22 | $12.71 |

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

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